

**Collective Investment Schemes**  
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# **COLLECTIVE INVESTMENT SCHEMES (CIS)**

## **CHAPTER I**

### **INTRODUCTION**

#### **The Importance of CIS**

**1.1** The CIS type of financial institution is extremely important for emerging market countries as it focuses on the function of transferring funds from savers (especially small savers) to investors, not only within borders, but also across borders.

**1.2** The CIS offers a flexible, simple and convenient means of participating in the future growth of a country and its economy. It offers to the wider general public and those investors who do not have investments in any enterprise, expert investment advice at relatively low cost and participation in investment opportunities. This can be achieved by investors regularly investing relatively small amounts and also securing a diversification of risks exposures because their funds are invested in a wide variety of industries. Investment in CIS offers, even to the smallest investor, sound long-term capital appreciation and income growth and an indirect interest in the ownership of a country's wealth.

#### **Types of Collective Investment Schemes**

**1.3** Various types of CIS could be launched for use by investors depending on the opportunities in the economy and the investment needs of investors. These may include:

- Growth funds for which an investment strategy of capital growth is pursued. Investment by such funds may involve greater risk to obtain higher capital growth;
- Income funds for which an investment strategy of a consistent flow of high income is pursued. These funds will be investing in investments providing a higher income.

## **CHAPTER II**

### **SPECIFIC ISSUES TO BE ADDRESSED**

#### **Role of CIS**

**2.1** It is a savings vehicle to mobilize savings into pools of funds to be invested in the financial markets (the money, equity, capital or fixed property markets). It gives the small investor the opportunity to participate in investments in which he normally would not be able to do. Through this vehicle he can participate in income and capital growth.

**2.2** An investment in a CIS is not guaranteed and the investor is exposed to market risk. This includes the loss of capital invested and income, depending on the movement in market conditions.

**2.3** Investing in a CIS means buying units in a fund consisting of a pool of all the funds of investors. An investor becomes an owner of the number of units in the fund reflecting the size of his investment. A CIS's only business is investing in securities, money or capital market instruments, and the price / value of its units is directly related to the value of the underlying securities or instruments held by the CIS. The collection of securities or instruments held by the CIS is known as the fund's asset portfolio. A CIS is a fund in which each unit holder has a proportionate ownership interest.

**2.4** A CIS can be “open-ended” if it continually issues new units in the fund for purchase by the public depending on the number and value of new investments entering the fund. A fund's unit price can change from day to day, depending on the daily value of the underlying securities held by the fund. The price of a unit is the net asset value of the unit and is calculated simply by dividing the total value of the fund's investments at any given time, less expenses by the number of units issued. Or a CIS may be “closed-ended” if the assets and investors are limited to a specific quantum.

**2.5** The price of each unit issued by a CIS therefore reflects the total market value of the fund's investments divided by the number of units in issue. The price of units may fluctuate (up or down) along with the rises and falls in the prices of the underlying assets in the portfolio.

**2.6** The selling price (also known as the buyers price) is the price at which the unit holder can buy those units. In determining the selling price of units the marketing charges of the CIS are added to the purchase price. The selling or repurchase prices of units should be quoted daily for example in the media.



**2.7** The repurchase price (also known as the sellers price) is the price which the manager will determine for the repurchase of units if the unit holder wishes to sell units back to it. To determine this figure the manager determines the value of the securities held, based on their ruling prices. To this figure is added the cash the trust holds as well as any accumulated income. The total sum is divided by the number of units in issue and charges such as stockbroking fees may be deducted and the balance is the normal repurchase price.

**2.8** In some jurisdictions the selling and repurchase prices are the same. They are calculated according to applicable accounting standards by dividing a CIS's total assets less its liabilities by the number of units.

**2.9** The manager is entitled to a fee to reward him / her for the management of the CIS and to reimburse such a manager for administrative and other expenses such as stampduties, etc.

**2.10** The investment in a CIS is supported by a high degree of security. The combination of factors such as professional management, a spread of investments, liquidity on demand, simplicity of investment, tax efficiency, offers a popular vehicle for investment. CIS investments coupled with life policies, also offer an attractive investment towards retirement benefits.

**2.11** An important advantage to investors of a CIS is that a manager of a fund has access to a wide range of resources (data and professionals providing information) on which investment decisions in which assets to invest in can be based. Most individuals cannot spend the time and money to obtain such information and do not have the expertise to make such investment decisions.

### **Legal Form and Structure**

**3.1** The structure of a CIS normally consists of the following:

- A Manager (this varies from jurisdiction to jurisdiction and can be a public company);
- The Fund (the fund is normally a trust or a legal person). (Legislation provides that legal personality is normally allocated to the fund as the fund is required to hold in its name on behalf of its investors the assets in which it has invested; funds may also be organized as condominiums of unit holders.);

- Third Party (acting as a trustee or custodian to supervise that the manager complies with the investment policy adopted for the fund and to act as custodian in respect of the scrip evidencing ownership or title of the fund in respect of the investments of the fund);
- An approved Public Accountant or Auditor (to conduct an annual audit in terms of the prescribed requirements to safeguard the interests of investors).

**3.2** A minimum capital requirement is normally prescribed for the manager (e.g. 500 000\$ U.S.). A capital requirement is necessary to only allow managers of a sound financial status to conduct the business of a CIS. This requirement should increase as and when more than one fund (or portfolio) is created and managed by the manager. A further requirement is normally imposed in respect of the manager in that a minimum of its own resources should be invested in each portfolio (e.g. 10% of the market value of the portfolio with a maximum of say 250 000\$ U.S.). This is to ensure that a manager invests in good investment grade assets only.

**3.3** In respect of each portfolio of the CIS a minimum of for example 5% of the market value of the portfolio should be kept in liquid assets to enable the manager to repurchase units when required to do so by the unit holders of that portfolio. This requirement is to ensure that a measure of liquidity is maintained for the repurchase of units.

**3.4** It is advisable that the manager of a CIS should be prohibited in its Memorandum of Association (if it is a public company) from conducting any other business than that of a CIS in the CIS or in any portfolio. This requirement is necessary to prevent a conflict of interest between the business of the CIS and such other business.

**3.5** It is customary to enter into a legal agreement in the form of a trust deed or otherwise with the independent third party to act as custodian in terms of which the rights and obligations of the third party and the manager are determined.

**3.6** Each portfolio of a CIS should be managed separately and a particular portfolio may not stand in for the liabilities of another portfolio. Furthermore, the switching of investments by the manager between portfolios should be strictly prohibited. The structure of a CIS is depicted in the graph attached as Annexure 'A' hereto.

## **Types of Portfolios or Funds**

**4.1** It is customary for an industry or a manager to start with a general portfolio (i.e. a portfolio invested in equities) but as investors' needs for investments in specialist portfolios develop, specialist portfolios may be permitted (e.g. gilt or income funds, money market funds, index funds, etc).

**4.2** A portfolio could either be:

- Open-ended (i.e. additional units may be created on an on-going basis for investors and be bought back by the manager on behalf of the fund when requested to do so by unit holders);
- Close-ended (i.e. a limited number of units are created and issued to investors and the investment of a unit holder can only be realized by the sale of his units to another investor in the secondary market either through a listing on a stock exchange or through the intermediation of the manager). The underlying investments in which a fund invests should be listed on a recognized financial exchange (as this makes the determination of the value of the assets easier) or otherwise approved by the regulatory authorities as suitable for investment (e.g. deposits with a registered bank).

## **Eligibility to Act as Scheme Manager**

### **Requirement and Authorization**

### **Honesty and Fairness**

**5.1** A manager of a CIS has a fiduciary duty towards the investors in the fund managed by it and should at all times maintain due care and diligence, utmost good faith, high standards of integrity and fair dealing while acting in the best interest of a CIS. In addition to its investment responsibilities high standards of market conduct should be maintained and the manager should ensure that the assets of a portfolio or fund are adequately protected and segregated.

### **Expertise and Capability**

**5.2** Directors, senior management of the manager and the staff employed should pass a fit and proper test to prove that there is appropriate expertise at board and management level to operate a CIS (CV's and evidence of proven track record should be required). The manager of the CIS should also demonstrate that it has efficient systems to cope with the demand for calculating the buying and selling prices of

units, payment of dividends, marketing of products, administration of accounts and maintenance of control systems that would satisfy auditing requirements.

### **Capital Adequacy**

**5.3** The manager should prove:

- That it has sufficient capital (and reserves that may not be distributed) to be eligible to act as manager as certified by a public accountant and auditor;
- That it has own resources to invest the prescribed minimum amount in each portfolio.

For this requirement it is important that a scheme manager has a shareholder or partner of substance to provide the necessary capital should a shortfall in capital be experienced by the manager.

### **Diligence and Effectiveness**

**5.4** The manager shall act with due care and diligence and employ effectively the resources and procedures which are needed for the proper operation of a CIS. The manager must organize and control the affairs of a CIS in a responsible manner, keep proper records and adequate arrangements for ensuring that employees are suitable, adequately trained and properly supervised. There should be well defined procedures in place to ensure compliance with all requirements and regulations and the manager shall deal with the regulator in an open and cooperative manner at all times.

### **Specific Powers and Duties of the Manager**

**5.5** The manager shall operate within the investment policy and administrative procedures as determined by the board of directors to secure the objective of each portfolio. It may not exceed any power or restriction conferred upon it by for example the trustee.

### **Compliance**

**5.6** The manager shall comply with the strictly defined standards and legal requirements set by the regulatory authority and the relevant legislation, both for the initial eligibility and for the continued operation of the CIS.

## **Code of Conduct**

**5.7** The manager shall at all times comply with any Code of Conduct laid down or agreed to by the regulatory authorities or industry. Aspects such as disclosure, advertising, attitude towards investors and risk management should be covered in such code.

## **Third Party Supervision**

**6.1** It is common to have an independent third party to oversee on behalf of investors the activities of a CIS. This could be approached in two ways, i.e.:

- Firstly, a custodian may be appointed to take into safe custody the assets of a particular portfolio which are held on behalf of the investors and unit holders in such a portfolio; or
- Secondly, a trustee which could in terms of a trust deed be required to act not only as custodian but also to ensure that as far as the investments are concerned, the manager is complying with the investment policy that has been determined by the board of directors of the manager.

A trustee may also have a duty on behalf of the investors to see that the other rules contained in the trust deed of the other requirements and regulations for the operation of a CIS are adhered to by the manager. In some jurisdictions a third party is appointed to perform the functions of a trustee or custodian.

## **Appointment**

**6.2** A custodian / trustee / third party should be liable for any loss suffered by the investors as a result of its negligence or failure to perform its obligations.

**6.3** The custodian / trustee / third party should be appointed by the regulatory authority to ensure that the relevant party appointed is a fit and proper person to discharge the duties and responsibilities required from a custodian / trustee / third party.

## **Financial and Other Resources of Custodian / Trustee / Third Party**

**6.4** The custodian / trustee / third party shall be a public company or other recognized functionary and approved by the regulatory authorities. It shall have a minimum capital and have a financial and commercial standing and be fit to assume

the duties and responsibilities and be sufficiently experienced and equipped to assume such duties and responsibilities and must always act in the best interest of investors.

### **Independence**

**6.5** The custodian / trustee / third party shall not have any interest, direct or otherwise, in the manager and must be functionally independent of the management company.

### **Responsibilities**

**6.6** The custodian / trustee / third party shall:

- Keep control of all scrip in respect of securities which it must hold in safe custody; and
- Control accounts through which moneys are paid into and paid out.

### **Supervision**

**6.7** Although supervision is important the business of a CIS is of such a nature that an acceptable balance between direct regulation and self-regulation can be maintained. The trust deed should give the necessary authority to the custodian / trustee / third party to apply a rule.

### **Effectiveness of Trustees / Third Party vs Board of Directors of Investment Company**

**6.8** If possible a self-regulatory industry body should be legally empowered to assist with certain aspects of supervision of the industry and must also have efficient sanctions to operate.

### **Delegation of Duties to Third Parties (Investment Management Administration, Selling Practices, Trustee, Custodian)**

**7.1** The regulatory body should ensure that the level of protection to investors in CIS is maintained at all times. This should be attained through management administration by proper fund managers, safe custody of investments and control over trust accounts.

Where certain activities of the manager of the CIS is contracted out to third parties, e.g. the investment of the fund's asset, the same principles which regulate the

eligibility and the conduct of the management company, should apply to such third parties. The following principles should apply in the case of the delegation to external parties.

**-- Responsibility / Duties --**

**7.1.1** The management company should take responsibility for the actions or the omissions, as though they were its own, of any third party to whom it delegates any part of the provision of services to the CIS.

**-- On-Going Monitoring --**

**7.1.2** The manager should ensure that procedures and safeguards are in place to monitor the activities of third parties.

**-- The Qualifications of Delegate / Agent --**

**7.1.3** The manager must be able to prove that a delegate is and remains competent to fulfill the delegated function in question. The manager must have a sufficiently detailed knowledge of the operating procedures of the delegate to be able to comply with all regulatory requirements.

**-- On-Going Cooperation --**

**7.1.4** The manager should provide all reasonable means to permit a delegate to fulfill its obligations and should ensure that the contractual relationship between the manager and its delegate is unambiguous.

**-- Level Playing Field --**

**7.1.5** The use of delegates should not, in any way, diminish the effectiveness of the primary regulation of a CIS. The regulation of the business undertaken by a delegate should embody principles of regulation similar to those relating to the regulation of a CIS generally.

**-- Compliance --**

**7.1.6** Any third party / delegate should comply with all regulatory requirements applicable to the conduct of its business activities as well as those set by the self-regulatory body.

**7.1.7** If a central depository is involved in the industry, the role of a custodian might be scaled down.

## **Supervision**

A regulatory structure for the supervision of a CIS shall provide for:

### **-- Registration and Authorization --**

**8.1** A CIS must be registered with the regulatory authority prior to the marketing of its units. The process must take the form of a properly motivated application giving full details of the management company, capital, expertise, custodian, trust deed and auditors.

### **-- Inspections and Investigations --**

**8.2** The regulatory authority must have the power to investigate the business of the CIS, including the power to conduct routine as well as special inspections. These inspections could be carried out by the regulatory authority itself or delegated to a third party. The external auditor should also be responsible for playing a role in these activities.

### **-- Power of the Regulatory Authority --**

**8.3** The regulatory authority should have adequate powers to protect investors' interests, including but not limited to revoking a manager's approval, freezing CIS assets or the manager's assets, taking action to withdraw the ICS's authorization or stop the use of a prospectus, instituting administrative or civil proceedings, and recommending criminal action where appropriate.

### **-- Third Party Supervision --**

**8.4** The regulatory authority must provide for an independent party (custodian / trustee) to supervise the activities of the management company as regards operation of accounts, registration of scrip, etc.



## **Auditors**

### **-- Appointment --**

**8.5.1** An external independent auditing firm in public practice should be appointed by the directors to audit the affairs of a CIS. Such appointment should be approved by the regulatory body.

The external auditors appointed to the management company must be involved in the supervision of compliance with regulatory requirements. The establishment of an audit committee on which non-executive directors should form the majority, should be compulsory.

### **-- Reporting --**

**8.5.2** On top of the normal reporting on the accounts of a CIS, the auditor should report to the manager any irregularity or undesirable practice in the conduct of the business of the company or of any scheme managed by it which has come to his notice, and if that irregularity or undesirable practice is not rectified or discontinued within a period of one month as from the date upon which it was reported to the manager, the auditor shall report it to the regulatory authority.

### **-- Audit Committee --**

**8.5.3** An audit committee, to exist with a majority of non-executive directors, should be appointed by the management company. Such committee should meet regularly (once a quarter) and have the following functions:

- (i) assist the board of directors in its evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes applied within that scheme in the day-to-day management of its business;
- (ii) facilitate and promote communication, regarding the matters referred to in (i) above or any other related matter, between the board of directors and the executive officers of, the external auditor for, and the employee charged with the internal auditing of the transactions of the scheme; and
- (iii) introduce such measures as in the committee's opinion may serve to enhance the credibility and objectivity of financial statements and reports prepared with reference to the affairs of the scheme.

If an audit committee is not appointed, the external auditors should report on the following issues on at least a quarterly basis:

- (a) whether the internal control structure including financial control, accounting systems and reporting are at an acceptable level;
- (b) whether the internal audit functions are at an acceptable level;
- (c) whether the manager is complying with regulatory requirements; and
- (d) whether the manager is complying with the code of conduct applicable to the unit trust industry.

### **Conflicts of Interest**

**9.** The regulatory regime should recognize that a manager of a CIS may have interests that, if exercised without restraint, could conflict in a material way with the interests of investors. Regulatory authorities should respond to this risk by ensuring that a regime provides for the exercise of management responsibilities with full regard to the best interests of investors. Such a regime may be general in nature, relying on the concept of “fiduciary responsibility” as interpreted domestically. Equally the establishment of detailed regulations designed to monitor potential conflicts between manager and investors is recognized as a regulatory necessity.

#### **-- Possible Conflict of Interest Situations --**

**9.1** Whether the concept of overall fiduciary responsibility is utilized, or provisions exist for detailed rules to monitor potential conflicts, a regulatory regime must be capable of dealing with certain situations which may give rise to conflicts of interests. This includes (but may not be limited to):

- (a) principal transactions between a CIS and its affiliates (including affiliates of the operator and custodian);
- (b) transactions where a CIS and its affiliates jointly participate;
- (c) soft commissions;
- (d) lending or borrowing to or from affiliates;
- (e) purchase of affiliate’s securities;

- (f) purchase of securities underwritten by affiliates;
- (g) use of affiliated brokers;
- (h) employees transactions for own account; and
- (i) switching of investments.

**-- General Duties and Obligations --**

**9.2** Possible conflict of interest situations may be addressed by the following:

- (a) to impose a duty on an operator to at all times act in the best interests of investors; and
- (b) the power of the regulatory authority to impose sanctions for self-dealing, such as revoking the manager's authorization to stop the use of a CIS's prospectus, to freeze the assets of the manager, instituting administrative or civil proceedings, and recommending criminal action where appropriate.

**-- Specific Regulatory Response --**

**9.3** In addition to general duties and obligations, the means available to control conflict of interest situations (to the extent that they may arise within the regulatory framework of a particular jurisdiction) include all or a combination of some of the following:

- (a) direct prohibition under the law;
- (b) a precise code of business conduct either established by the regulatory authority, or a code established by an industry association with proper sanctions to be applied, which is approved and enforced by the regulatory authority;
- (c) review and / or approval of certain transactions and activities by the regulatory authority;
- (d) surveillance of managers by the regulatory authority;
- (e) disclosure by the manager;

- (f) record-keeping by the manager;
- (g) limitation of the business activities of the manager; or
- (h) independent review by a third party or the auditor.

### **Asset Valuation and Pricing**

**10.** The regulatory regime must prescribe a system for valuation of CIS assets, pricing of interests and procedures for entry to and exit from a collective investment which are fair to existing investors as well as to investors seeking to purchase or redeem their units. It is a fundamental principle that the price of units in a CIS be determined at existing market values and calculated according to the net asset value of the CIS which must be determined on a regular basis in accordance with accepted accounting practices used on a consistent basis.

#### **-- Valuations --**

**10.1.1** Assets of the CIS must be valued according to their market price. “Market price” means the price at which significant transactions have recently been concluded and disclosed to the market, or the best price available from a market maker. Should the market price not be available for any reason, the asset price should be calculated in good faith according to a permanent and reliable valuation procedure approved by the regulatory authority.

**10.1.2** The net asset value per unit must be calculated in accordance with applicable accounting standards by dividing a CIS’s total assets less its liabilities by the number of units.

**10.1.3** The net asset value per unit should be published at the manager’s or at the third party’s offices or through the appropriate media.

**10.1.4** The rules for asset valuation and for calculating the price of units must be laid down in the law or a CIS's rules or its public disclosure documents.

**10.1.5** Information on the system for pricing, valuation and associated procedures must be made available to investors on request.

#### **-- Purchasing and Redemption of Units --**

**10.2.1** A CIS must redeem its units at the request of any investor, in a manner and frequency laid down in law or the CIS Rules.

**10.2.2** Redemption of units may only be suspended on a temporary basis. Any such suspension must be in accordance with the procedures provided for by law or the CIS rules and must be in the interests of investors. A CIS must inform the regulatory authority of any suspension. In accordance with the laws of its jurisdiction, a regulatory authority may permit a CIS to suspend the right of redemption for the protection of investors.

**10.2.3** Purchase of units may be done in cash, or in certain circumstances if permitted by the CIS, an investor may be allowed to use securities to purchase units. Redemption of units may be paid in cash, except when the CIS is liquidated and this possibility has been disclosed in the prospectus, or in certain circumstances when redemption may be by way of securities.

**10.2.4** Purchase and redemption orders are to be settled as soon as possible, in accordance with the law, the CIS rules and the prospectus.

### **-- Unit Pricing --**

**10.3.1** A CIS must calculate the purchase and redemption price of its units on a regular basis in accordance with the law and the CIS rules.

**10.3.2** Purchase and redemption orders must be executed at the net asset, value calculation price as defined in Principle 10.1.2, excluding any subscription or redemption fees disclosed in the prospectus. The amount received by the CIS on the issue of its securities must equal the net asset value calculation price as defined in Principle 10.1.2. Any redemption fees disclosed in the prospectus may be deducted from the price (net asset value) payable to the investor.

**10.3.3** Any purchase or redemption fee applicable to units in a CIS (as well as any management fee) must be clearly indicated in the CIS rules or the prospectus, and actual rates disclosed in the prospectus.

**10.3.4** The distribution or reinvestment of the income of a CIS must be effected in accordance with the law and the CIS rules.

**10.3.5** Prices of units must be published daily to allow investors to follow prices. If daily publication is not possible weekly or monthly publication should be required.

### **Investment and Borrowing Limitations**

**11.** There should be investment restrictions, portfolio diversification and borrowing limitations that address the investment goals, the risk profile and the

degree of liquidity required for a CIS to meet redemption in all market conditions. The need for liquidity typically contemplates a CIS investing primarily in transferable securities, money market instruments and derivatives incidental to the management of a securities portfolio.

### **-- Investments --**

**11.1** Limitations imposed on a CIS should indicate the extent of investment in the following:

**11.1.1** Investment in listed securities issued by any one concern (for example such investments may not exceed 5% of the total assets of a portfolio, or 5% of the securities of any one class of one particular issuer);

**11.1.2** No investment in securities not listed on a recognized exchange;

**11.1.3** Percentage of total assets of a portfolio to be invested in derivatives;

**11.1.4** Percentage of total assets of a portfolio to be kept in liquid assets (for example not less than 5%);

**11.1.5** Limitation on investment by one fund in another fund.

### **-- Borrowing --**

**11.2** The borrowing of funds by a CIS should be strictly controlled. Funds for the operation of the fund should preferably come from own resources or capital injected by shareholders. This should be clearly stated in its Memorandum of Association. Limiting borrowing to provide for the redemption of units may be allowed. Full disclosure to unit holders should be a requirement.

### **-- Use of Derivative Instruments --**

**11.3** A CIS should only be allowed to invest in derivative instruments to hedge investments in underlying assets and income of such assets against adverse market movements to reduce risks or to track an index. All exposure in terms of investment in derivative instruments should be covered by either cash or underlying investments.

Where pure derivative funds are permitted, investors should be properly informed of the risks involved of investing in these type of funds.

## **Investor Rights**

**12.** The regulatory regime should provide investors with certain rights in relation to a CIS, which are appropriate to the overall context of CIS regulation. A fundamental right of an investor in a CIS is the right to withdraw funds from the CIS within a reasonable period. The regime should also enable investors to participate in significant decisions concerning the CIS to the extent applicable under the structure of the CIS, or for the regulatory authority or another third party to have the capacity to act in the interests of investors.

### **-- Redemption Conditions --**

**12.1.1** At the outset of the participation in a CIS, the investor must be fully informed through the prospectus of the charging of management fees and costs for the redemption of units.

**12.1.2** Units of a CIS must be repurchased or redeemed at the request of any unit holder, in a manner which does not give an unfair advantage to one investor in the CIS over any other investor. The regulatory regime should ensure that investors' interests are maintained in the event of a major change in the activities of the CIS.

**12.1.3** Should a CIS be unable to redeem the units of an investor at any particular point in time, arrangements to permit major investors to buy such units may be provided for.

**12.1.4** In the event a redemption is not possible or the listing of units is suspended the Articles of Incorporation or the CIS's constitution document must request that (or the trust deed may require that) the manager call a meeting of unit holders to enquire from the unit holders whether the scheme should be wound down or liquidated.

### **-- Access to Remedies --**

**12.2.1** In addition to the normal access to legal procedures in the courts, investors should be able to refer matters to the regulatory authority for consideration. The regulatory authority must have proper powers of investigation, means to review investment managers and should have adequate powers to enforce its decisions on the operator and the third party in order to protect investors' interests.

**12.2.2** The Articles of Incorporation or the CIS's constitution document must grant (and the trust deed may also provide) for unit holders to call a meeting of unit holders

to require the third party (by a 2/3 majority resolution of not less than 25% of the unit holders) to remove the manager.

### **Marketing and Disclosure**

**13.** The regulatory regime must impose a disclosure requirement to ensure that there is full, accurate and timely disclosure to prospective investors providing all the information necessary for an investor to make an informed investment decision in relation to a CIS. Financial data and other information relating to the management and operations of a CIS must be provided on a regular (annual or semi-annual) basis for the benefit of existing and prospective investors in the CIS. These requirements must be monitored by the regulatory authority to ensure that information provided meets the standards required.

#### **-- Prospectus --**

**13.1.1** There must be a prospectus which complies with the standards applicable in the home jurisdiction of a CIS which shall be published prior to the issue. No additional documents may be used for marketing a CIS, except for permitted advertisements or other literature which comply with applicable requirements.

**13.1.2** A CIS prospectus must include all material information which investors would reasonably require and reasonably expect to find to make an informed investment decision. A prospectus shall not contain information that is false or misleading.

#### **-- Regular Reporting --**

**13.2.1** A report to unit holders must be prepared in respect of a CIS's activities either on an annual or semi-annual basis. The report must be filed with the regulator and made freely available to investors. The annual report of the CIS must be reviewed / audited by an independent auditor and third party.

**13.2.2** The annual or semi-annual reports must contain accounting information relevant to the CIS and a statement concerning the units in the CIS that have been redeemed or repurchased over the relevant period. The accounts of a CIS included in these reports must be prepared in accordance with applicable and generally accepted accounting standards.

#### **-- Advertising -**

**13.3.1** Advertising must normally be undertaken after all the necessary authorizations have been granted to permit the CIS to market to the investing public. Advertising



must not contain information which is false or misleading or presented in a manner which is deceptive.

**13.3.2** Advertising (except where only the prices of authorized schemes are quoted) should refer to the prospectus applicable to the CIS. There must be nothing in advertising of a CIS which is inconsistent with the prospectus. The regulator must have the power to enforce withdrawal of advertisements or take appropriate action against non-compliance with prescribed provisions in respect of advertisements.

**-- Portfolio Disclosure to Public and Regulators --**

**13.4** Details of the investments of a fund should continuously be disclosed by the management company to existing and prospective investors to enable them to make proper investment decisions.

Regulatory authorities should be furnished with returns on a regular basis for proper supervision.

**-- Disclosure of Expenses --**

**13.5** All expenses, in terms of proper accounting procedures, should at all times be made available to all investors.

**-- Performance Presentation Standard --**

**13.6** Past performance should be clearly indicated but with proper indication that future performance should not be based on this performance.

**Tax Implications**

**14.1** An important factor in this regard is whether underlying assets are acquired as a capital or revenue asset. The basic criterion for distinguishing between these two is the intention of acquiring the relevant assets. If the intention is to hold such asset to earn an income, the asset will be of a capital nature. If it was acquired for resale, it is being regarded as a revenue asset. Other criteria to be taken into account are the nature of the investors business, the frequency of dealing in such assets and the length of time such assets are maintained in possession before disposal thereof.

**14.2** Another type of tax incentive is granted to CIS whose portfolios are mainly composed of stocks, in order to promote the development of the stock market and encourage investors to assume higher risks and thus contributing to the capital formation process.

<p><b>PRINCIPLE 1</b> <b>Legal Form and Structure</b></p>	
<p><u>Legal Requirement</u></p> <p><u>Regulatory Body</u></p>	<p>CIS may be organized as open or closed condominiums, v respectively of open-ended and closed-ended funds. The sche specified terms.</p> <p>The National Monetary Council, currently composed of the Min Planning, and the President of the Central Bank of Brazil, a determines norms with respect to the functioning of mutual f supervising collective investment schemes is divided betwee (BCB) and the Securities Commission (CVM), according to w oriented to fixed income or variable income investments, resp</p>
<p><b>PRINCIPLE 2</b> <b>Trustee / Custodian / Dep ositary</b></p>	
<p><u>Independence</u></p> <p><u>Capital Requirements</u><sup>1</sup></p> <p><u>Other Qualifying Requirements</u></p>	<p>No requirement that custodian be independent. Self-custody held by a commercial bank, investment bank, stock exchange, the CVM to act as a custodian. The function of trustee, Brazil.</p> <ul style="list-style-type: none"> <li>• R \$7 million for commercial banks;</li> <li>• R \$6 million for investment banks;</li> <li>• R \$600 000.00 for brokers or dealers which have any of the <ul style="list-style-type: none"> <li>I. mutual funds administration;</li> <li>II. securities repurchase commitments;</li> <li>III. underwriting;</li> <li>IV. swaps; or</li> <li>V. margin accounts;</li> </ul> </li> <li>• Multiple banks, which should have at least two portfolios of minimum capital related to each portfolio, and deduct a</li> </ul> <p>Authorization to operate as custodians in Brazil is granted the CVM, subject to several safekeeping requirements.</p>

PRINCIPLE 3 1. General Principles of Conduct	
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<p><u>A. Principles Governing Fund Management Legislation</u></p>	<p>The management of the fund will be performed by an individual or individuals authorized by the CVM for that purpose, according to Brazil's Securities Law. The CVM's authorization includes, in the case of individuals or entities, a confirmation of their professional background, and a confirmation that they have not been convicted or involved in any administrative or judicial proceedings.</p>
<p><u>B. Professional Records</u></p> <p><i>Codes of Conduct for Management Company</i></p> <p><i>Asset Segregation</i></p> <p><i>Personnel Experience</i></p> <p><i>Resources</i></p> <p><i>Capital Requirements</i></p> <p><i>Monitoring</i></p>	<p>Individuals need the following qualifications:</p> <ol style="list-style-type: none"> <li>1. at least three years of professional experience in the area as a third party resource management;</li> <li>2. at least five years of professional experience directly in the securities market;</li> <li>3. university degree, obtained in Brazil or abroad, or a diploma from a university or institution, in an officially acknowledged institution.</li> </ol> <p>Companies need the following qualifications:</p> <ol style="list-style-type: none"> <li>1. have as its objective the management of portfolios;</li> <li>2. impute the responsibility for the portfolio management to the person who has obtained, prior to or simultaneously, the authorization;</li> <li>3. constitute and maintain a technical department, special department or committee, under the director's or associate's supervision.</li> </ol> <p>Individuals or companies responsible for fund management must observe the following code of conduct:</p> <ol style="list-style-type: none"> <li>1. perform their duties in accordance with the shareholders' interests;</li> <li>2. comply with all their obligations, being careful and honest in the use of their own money;</li> <li>3. fund managers are responsible for any infractions or irregularities during their term;</li> <li>4. specifically, in a previously signed contract between the manager and the shareholders, the basic characteristics of the services offered, including:             <ol style="list-style-type: none"> <li>a) the investment policy to be adopted;</li> <li>b) the remuneration charged for the services;</li> <li>c) other activities performed at times by them; and</li> <li>d) the risks involved in the many types of operations which the manager intends to carry out with the shareholders' fund;</li> </ol> </li> <li>5. avoid practices that may damage the fiduciary relation with the shareholders;</li> <li>6. keep all investment-related documentation updated and in proper order;</li> <li>7. send to the shareholders, at least quarterly, information on:             <ol style="list-style-type: none"> <li>a) the composition of the portfolio;</li> <li>b) investments and withdrawals; and</li> <li>c) brokerage fees.</li> </ol> </li> </ol> <p>Yes, assets must be segregated.</p> <p>Please see Item B ("Professional Records") above.</p>
<p><b>2. Manager Powers and Duties</b></p>	<p>Companies managing funds must constitute and maintain a technical department for securities analysis, under the direct supervision of the manager, who is responsible for the management of the portfolio.</p>
<p><u>A. In the context of delegation, are there minimum duties that managers must provide?</u></p>	<p>No requirements.</p> <p>The CVM monitors the operator by conducting for cause examinations.</p>
<p>In particular, do managers have to provide: Status of Scheme / Book Keeping / Cash / Settlement / Investment Decisions?</p>	<p>All fund management functions may be delegated to another individual or entity, but the manager will be fully responsible, together with the fund manager, for the management of the fund. The final responsibility for all matters remains with the fund manager.</p>
<p><u>B. What functions may be delegated to an external auditor?</u></p>	<p>Yes. Managers have to provide all these items.</p>
<p><b>3. Compliance</b></p>	<p>All functions normally performed by the technical department ("Resources") may be delegated to an operator (individual or entity) authorized by the CVM.</p>
<p><u>A. Do fund managers have to give information of funds performance to regulators?</u></p>	<p>Yes. Please see Item 1 C at the end of the Questionnaire ("Obligations").</p>
<p><u>B. And to the shareholders of the funds they manage?</u></p>	<p>Yes. Please see Item 1 C at the end of the Questionnaire ("Obligations").</p>

PRINCIPLE 4 1. Maintaining Protection	
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<p><u>A. Describe the legal or regulatory requirements for an entity advising fund managers</u></p>	<p>Advisors must:</p> <ol style="list-style-type: none"> <li>1. have a proven experience in the securities market;</li> <li>2. have a truthful and honest reputation;</li> <li>3. be technically capable;</li> <li>4. not be legally prevented to perform this function;</li> <li>5. not have been convicted of crime or of tax evasion; and</li> <li>6. not have been declared unqualified for the position of manager or any other public office.</li> </ol>
<p><u>B. Do they require registration or individual approval by regulator?</u></p>	<p>Registration of advisers required.</p> <p>Yes. Please see Principle 3, Item 2 A.</p>
<p><u>C. Does the manager remains responsible for acts and omissions of the adviser?</u></p>	<p>The advisor is subject to the sanctions provided by the Securities Law:</p> <ol style="list-style-type: none"> <li>1. warning;</li> <li>2. fine;</li> <li>3. suspension of the position of an officer of a publicly held company or securities distribution system;</li> <li>4. disqualification for the positions referred to in last Item 3;</li> <li>5. suspension of authorization or registration for the performance of activities related to securities; and</li> <li>6. annulment of the authorization or registration referred to in last Item 3.</li> </ol>
<p><u>D. Sanctions against advisers?</u></p>	<p>Manager is fully responsible and may, at his / her own discretion, engage in other activities.</p>
<p><u>E. (I) Manager Oversight of Regulator</u></p>	<p>No. Adviser must have a contract with the fund manager of the investment scheme.</p>
<p><u>(II) Manager Contract with Regulator</u></p>	<p>Depends on the agreement between the management company and the investment scheme.</p>
<p><u>F. Contractual Obligations</u></p> <p><b>2. Exclusion of Regulatory Competition</b></p> <p>Using external fund managers should not diminish the effectiveness of primary regulation of the funds under management. The investment adviser should follow similar regulatory principles to that of the main scheme.</p>	<p>Yes. Please see Item 1 A above.</p> <p>Yes.</p>
<p><u>A. Levels of Regulation for an Advisor</u></p>	<p>Yes. Please see Item 1 D above.</p>
<p><u>(I) Must the adviser comply with eligibility requirements applicable to its investment advising activities?</u></p>	<p>Yes. Please see Item 1 D above.</p>
<p><u>(II) Must the adviser comply with all regulatory requirements in relation to the conduct of its business activities?</u></p>	
<p><u>(III) Do your regulations provide for sanctions against the adviser?</u></p>	



<p><b>PRINCIPLE 5</b> <b>Supervisory Role of Auditor</b></p>	
<p><u>Other than audit of annual independence?</u></p> <p><u>If so what?</u></p> <p><b>Role of Regulatory Authority</b></p> <p><u>On-going monitoring and supervision?</u></p> <p><b>Enforcement Powers</b></p> <p><u>Inspection</u></p>	<p>Yes.</p> <p>a) Auditor's opinion related to semi-annual financial information; b) report on the situation of the fund; and c) report on the manager's performance, all of them having to comply with Accepted Accounting Standards and Auditing Standards, and</p> <p>Auditor must be registered with the CVM.</p> <p>CVM analyzes all financial information submitted and checks for compliance with Accounting and Auditing Standards or for signs of fraud or other irregularities. Inspections will be conducted accordingly.</p>
<p><b>PRINCIPLE 6</b></p>	



<p>1. Soft Dollar Arrangements</p> <p>2. Purchase of Underwritten Securities</p> <p>3. Purchase of Managers Securities</p> <p>4. Principle Transactions with Affiliates</p> <p>5. Joint Transactions</p> <p>6. Borrowing and Lending to Affiliates</p> <p><b>MANAGER ACTIVITIES</b></p> <p><u>A. Acting as a Broker</u></p> <p><u>B. Purchasing for Fund and Other Clients</u></p> <p><u>C. Purchasing for Fund and Manager's Own Account</u></p> <p><u>D. Effecting a Securities Transaction</u></p> <p><i>Third Party Supervisor</i></p> <p><i>Role and Power of Supervisor</i></p> <p><i>Inspection of Regulator</i></p> <p><i>Powers of Regulator</i></p>	<p>No regulation.</p> <p>Possible. CIS investment may stem from underwritings on exchanges or OTC market, authorized by the CVM to function.</p> <p>Purchase of securities issued by manager is prohibited.</p> <p>Permitted, provided CIS manager's investment policy is specified including the possibility of investing in securities issued by manager. Prohibited.</p> <p>Borrowing and lending, as well as any form of co-obligation, is permitted. Borrowing of stocks permitted only to settle transactions.</p> <p>The manager may not trade securities of the portfolio he manages for the generation of brokerage fees for him / her or third parties.</p> <p>No regulation.</p> <p>No regulation.</p> <p>There is no legal provision on the hiring of supervisors in Brazil.</p> <p>Not applicable.</p> <p>Not applicable.</p> <p>Not applicable.</p>
<p><b>PRINCIPLE 7</b> <b>Asset Valuation and Pricing</b></p>	
<p><u>Method of Valuation</u></p> <p><u>Purchasing of Units</u></p> <p><u>Redemption of Units</u></p> <p><u>Pricing of Units</u></p>	<p>Assets are valued according to their market price.</p> <p>Shares of close-ended funds may only be purchased in the OTC market. Mutual Fund share issue price must be closing price immediately subsequent to the availability of the shareholdings.</p> <p>When redeeming open-ended fund shares, managers shall utilize the closing of first weekday immediately subsequent to the date of redemption. Net worth divided by the number of shares.</p>
<p><b>PRINCIPLE 8</b> <b>Eligible Instruments</b></p>	

<p><u>1. Transferable Securities</u></p>	<p>Generally no restrictions on the type of securities in which the following limits on their consistency have to be observed:</p>
	<p>1. <i>Mutual Funds for Investment in Shares (FMIA)</i>:</p> <ul style="list-style-type: none"> <li>• at least 51% in shares, issued by publicly held companies;</li> <li>• up to 49% in other kind of securities, DR's of companies headquartered in any MERCOSUL country, or fixed income securities.</li> </ul>
	<p>2. <i>Free Portfolio Mutual Funds for Investment in Shares (FMIA)</i>:</p> <ul style="list-style-type: none"> <li>• at least 51% in: <ul style="list-style-type: none"> <li>a) shares or subscription warrants, issued by publicly held companies;</li> <li>b) shares issued by companies headquartered in any MERCOSUL country, or DR's, if admitted to public trading in the respective DR's, or</li> <li>c) options and futures on stock or stock index contracts or fixed income operations.</li> </ul> </li> <li>• Up to 49% in: <ul style="list-style-type: none"> <li>a) other securities issued by publicly held companies, OTC market, or public offerings;</li> <li>b) fixed-income fund shares, fixed-income bonds, or money market instruments;</li> <li>c) close-ended CIS units, having at least 90% of their shares; and</li> <li>d) stock or stock index futures or options.</li> </ul> </li> </ul>
<p><u>2. Money Market Instruments</u></p>	<p>Investment in any kind of fixed-income fund shares permitted (see Item 1 above).</p>
<p><u>3. Other CIS Units</u></p>	<p>Permitted only in close-ended funds (see Item 1 above).</p>
<p><u>4. Derivative Instruments</u></p>	<p>Permitted only in stock futures or stock index futures or options.</p>
<p><u>5. Banks Deposits or Other Liquid Assets</u></p>	<p>Permitted, as well as government bonds.</p>
<p><u>6. Other Financial Instruments</u></p>	<p>Please see Item 1 above.</p>
<p><b>Limitations</b></p>	
<p><u>A. Investment Limitations</u></p>	<p>Total FMIA investment in securities issued by a single company cannot exceed 10% of its voting shares or 20%.</p>
<p><i>Transferable Securities and MMI</i></p>	<p>Of its total capital. In addition, only up to one third of total capital can be allocated to shares issued by subsidiary or parent companies. These restrictions do not apply to the FMIA-CL; however, they must be disclosed in the "prospectus".</p>
<p><i>On Voting Rights</i></p>	<p>Please see "A" above.</p>
<p><i>On CIS Units</i></p>	<p>Permitted only in close-ended funds, up to 49% of total investment.</p>
<p><i>On Derivatives</i></p>	<p>Short-selling prohibited.</p>
<p><b>Other Limitations</b></p>	
<p><u>B. Borrowing and Lending Limitations</u></p>	
<p><i>Borrowing of Liquidities</i></p>	<p>Prohibited.</p>
<p><i>Borrowing of Securities</i></p>	<p>Permitted only in the event of difficulties in the settlement of securities.</p>
<p><i>Lending of Liquidities</i></p>	<p>Prohibited.</p>
<p><i>Lending of Securities</i></p>	<p>Permitted.</p>
<p><i>Limitations of REPOS</i></p>	<p>Prohibited.</p>

**NOTES:**

1. As of September 1995, the exchange rate was quoted at R \$0.95 to the U.S. dollar.
2. "Prospectus" - The Brazilian legislation does not utilize the designation "Prospectus"; instead, the word "Regulation" appears, meaning an informative document of a specific CIS, similar to a prospectus. In order to follow the standards of this questionnaire, the word "Prospectus" will be used.

<b>PRINCIPLE 1</b> <b>Legal Form and Structure</b>	
<u>Legal Requirement</u>	Regulation of CIS only applies to unit trusts as of now. The the Unit Trusts Guidelines which is administered by the Secu
<u>Regulatory Body</u>	
<b>PRINCIPLE 2</b> <b>Trustee / Custodian / Dep ositary</b>	
<u>Independence</u>	Trustee / custodian cannot have any relation with the manage any interest in the Unit Trust Fund.  See later.  Approval of the SC is required. The SC may consult with ot making a decision.
<u>Capital Requirements</u>	
<u>Other Qualifying Requirements</u>	
<b>PRINCIPLE 3</b> <b>1. General Principles of Conduct</b>	

<p><u>A. Principles Governing Fund Management Legislation</u></p>	<p>Trust and fiduciary principles are the general principles of Unit Trusts. There is no legislation governing fund management now. General principles of trust would apply.</p>
<p><u>B. Professional Records</u></p> <p><i>Codes of Conduct for Management Company</i></p> <p><i>Asset Segregation</i></p> <p><i>Personnel Experience</i></p> <p><i>Resources</i></p> <p><i>Capital Requirements</i></p> <p><i>Monitoring</i></p>	<p>The Guidelines require that the management company be independent subsidiary of financial institution. At least one-third of the directors of the management company are required to be independent members.</p> <p>The directors of the management company are required to be of the necessary experience for the performance of their duties in this position in only one management company at any one time.</p> <p>Assets of the fund are held by trustees or third party. The management company is not allowed to hold the assets of the fund.</p> <p>Experience required under the Guidelines is as necessary for the manager of a unit trust. Fund management and asset management companies licensed by the Licensing Officer (LO) of the Ministry of Finance may operate. In giving the license the LO will consider if the company to be licensed as such. A license is not required for companies since they are exempt dealers under the Securities Commission. The management company will be vetted by the SC.</p> <p>Refer to below.</p> <p>For unit trust management companies, where the aggregate assets managed is less than 100 million units, the management company must have funds of at least MYR 500.00 unimpaired by losses. Where the assets managed is more than 100 million units and above, the shareholders must have MYR 1 million unimpaired by losses. The management company must be Malaysian owned with 30% Bumiputra ownership and foreign ownership not exceeding 70%. The LO will consider the financial position of the fund before granting the license. Fund managers are required to lodge their accounts with the Accountant-General before a dealer's license may be granted.</p>
<p><b>2. Manager Powers and Duties</b></p>	<p>The trustees are under a duty to monitor the activities of the management company. The trustees cannot rely only on records submitted to them. The management is under a duty to act in the best interest of the fund. The trustee for any loss which arises by reason of negligence may require the management to submit information relating to the activities of the management company.</p>
<p><u>A. In the context of delegation, are there minimum duties that managers must provide?</u></p>	<p>The management company is responsible for any acts or omissions of the management company which has delegated its functions. The management has to ensure that the management company "properly" to carry out the delegated functions. Furthermore, the management company must ensure the fund is diligently and properly managed.</p>
<p>In particular, do managers have to provide: Status of Scheme / Book Keeping / Cash / Settlement / Investment Decisions?</p>	<p>No.</p>
<p><u>B. What functions may be delegated to an external auditor?</u></p>	<p>Fund management and investment advice. SC approval is required.</p>
<p><b>3. Compliance</b></p>	<p>A report has to be submitted to the SC on a monthly basis. The report should include the portfolio of the fund, number of unitholders, transactions and other relevant information. Further to this, SC may require unit trust management company to submit reports on the performance of unit trusts from time to time.</p>
<p><u>A. Do fund managers have to give information of funds performance to regulators?</u></p>	<p>Unitholders may be supplied with the audited annual reports which may be published in a financial newspaper or other publication for individual unitholders. Trustees must ensure that unit trust accounts within two months from the time it was balanced. The management company must submit prospectus, trust deeds, interim reports and audited accounts to the principal office of the management company.</p>
<p><u>B. And to the shareholders of the funds they manage?</u></p>	<p>Yes. Audited yearly accounts are to be submitted to the Registrar of Companies (ROC).</p>
<p><u>C. Do their financial statements have to be audited?</u></p>	<p>Monthly reports to the SC.</p>
<p><u>D. Any other on-going obligations?</u></p>	<p>Monthly reports to the SC.</p>

PRINCIPLE 4 1. Maintaining Protection	
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<p><u>A. Describe the legal or regulatory requirements for an entity advising fund managers</u></p> <p><u>B. Do they require registration or individual approval by regulator?</u></p> <p><u>C. Does the manager remains responsible for acts and omissions of the adviser?</u></p> <p><u>D. Sanctions against advisers?</u></p> <p><u>E. (I) Manager Oversight of Regulator</u></p> <p><u>(II) Manager Contract with Regulator</u></p> <p><u>F. Contractual Obligations</u></p>	<p>An adviser on matters relating to securities is required Securities Industry Act as an investment adviser and the adviser representatives. Requirements are for the person to hold such a license. Whether the person is fit and proper Whether the person is fit and proper would depend on his and the interest of the public. This license is granted Finance.</p> <p>Yes. See above.</p> <p>The manager would remain responsible if it is a duty of trust deed and the duty is delegated to the adviser.</p> <p>Civil and criminal sanctions under the Securities Industry Act</p> <p>None.</p> <p>Regular.</p> <p>Yes, to the unitholders.</p>
<p><b>2. Exclusion of Regulatory Competition</b></p> <p>Using external fund managers should not diminish the effectiveness of primary regulation of the funds under management. The investment adviser should follow similar regulatory principles to that of the main scheme.</p> <p><u>A. Levels of Regulation for an Advisor</u></p> <p><u>(I) Must the adviser comply with eligibility requirements applicable to its investment advising activities?</u></p> <p><u>(II) Must the adviser comply with all regulatory requirements in relation to the conduct of its business activities?</u></p> <p><u>(III) Do your regulations provide for sanctions against the adviser?</u></p>	<p><b>of</b></p> <p>Yes, these requirements will be vetted at the point when representative's license.</p> <p>As of now there does not exist a Code of Conduct for Investment</p> <p>Yes, the sanctions are in relation to his position representative.</p>

<p><b>PRINCIPLE 5</b> <b>Supervisory Role of Auditor</b></p>	
<p><u>Other than audit of annual independence?</u> <u>If so what?</u> <b>Role of Regulatory Authority</b> <u>On-going monitoring and supervision?</u> <b>Enforcement Powers</b> <u>Inspection</u></p>	<p>The auditor is required to report any form of non-compliance</p> <p>Yes, by the SC as well as the ROC and the Central Bank.</p> <p>Yes.</p>
<p><b>PRINCIPLE 6</b></p>	

<p>1. Soft Dollar Arrangements</p> <p>2. Purchase of Underwritten Securities</p> <p>3. Purchase of Managers Securities</p> <p>4. Principle Transactions with Affiliates</p> <p>5. Joint Transactions</p> <p>6. Borrowing and Lending to Affiliates</p> <p><b>MANAGER ACTIVITIES</b></p> <p><u>A. Acting as a Broker</u></p> <p><u>B. Purchasing for Fund and Other Clients</u></p> <p><u>C. Purchasing for Fund and Manager's Own Account</u></p> <p><u>D. Effecting a Securities Transaction</u></p> <p><i>Third Party Supervisor</i></p> <p><i>Role and Power of Supervisor</i></p> <p><i>Inspection of Regulator</i></p> <p><i>Powers of Regulator</i></p>	<p>As approved by the SC and subject to exchange controls.</p> <p>Yes.</p> <p>No.</p> <p>As approved by the SC.</p> <p>As approved by the SC.</p> <p>No.</p> <p>Not allowed.</p> <p>The management may only enter into transactions of behalf of clients.</p> <p>Not allowed.</p> <p>Not allowed.</p> <p>None, other than the trustees.</p> <p>Not applicable.</p> <p>Power of inspection available under the law.</p> <p>Powers of inspection, investigation and enforcement.</p>
<p><b>PRINCIPLE 7</b> <b>Asset Valuation and Pricing</b></p>	



<p><u>Method of Valuation</u></p> <p><u>Purchasing of Units</u></p> <p><u>Redemption of Units</u></p> <p><u>Pricing of Units</u></p>	<p>As provided in the Unit Trust Guidelines.</p> <p>The trust deed shall outline the situations in which unit prescribed price. The formula for calculation of the rep given. Where there is a repurchase request as stated under complied with by the management within 30 business days. Re funds from the unit trust fund or through redemption of the</p> <p>Redemption has to be done by the trustee. In doing so, th interest of the unitholders. If the trustee is of the trustee may refuse the management request. Situations of r in the trust deed.</p> <p>Method of calculation of the selling and repurchase price of trust deed. It shall be based on the net asset value of price shall be at MYR 1 during the launching and offer perio</p>
<p><b>PRINCIPLE 8</b> <b>Eligible Instruments</b></p>	

<p><u>1. Transferable Securities</u></p> <p><u>2. Money Market Instruments</u></p> <p><u>3. Other CIS Units</u></p> <p><u>4. Derivative Instruments</u></p> <p><u>5. Banks Deposits or Other Liquid Assets</u></p> <p><u>6. Other Financial Instruments</u></p> <p><b>Limitations</b></p> <p><u>A. Investment Limitations</u></p> <p><i>Transferable Securities and MMI</i></p> <p><i>On Voting Rights</i></p> <p><i>On CIS Units</i></p> <p><i>On Derivatives</i></p> <p><b>Other Limitations</b></p> <p><u>B. Borrowing and Lending Limitations</u></p> <p><i>Borrowing of Securities</i></p> <p><i>Lending of Liquidities</i></p> <p><i>Lending of Securities</i></p> <p><i>Limitations of REPOS</i></p>	<p>Yes, whether listed on the Kuala Lumpur Stock Exchange or unlisted by the SC for public listing as well as securities listed on other exchanges.</p> <p>Yes.</p> <p>Only with approval of the SC.</p> <p>Only with approval of the SC.</p> <p>Yes.</p> <p>Unrelated property trusts, bonds, loan stocks, etc.</p> <p>A unit trust fund shall not invest more than 50% of its net assets in securities in any one company shall not exceed 10% of the issued capital of the company, whichever is lower. Foreign stocks shall not exceed 10% of the net asset value of the fund with other liquid assets should not comprise less than 10% of the net asset value of the fund.</p> <p>Not applicable.</p> <p>Not applicable.</p> <p>Not applicable.</p> <p>Not applicable.</p> <p>Not applicable.</p> <p>Not allowed.</p> <p>Not applicable.</p> <p>Not applicable.</p>
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**PRINCIPLE 1**  
**Legal Form and Structure**

<p><u>Legal Requirement</u></p> <p><u>Regulatory Body</u></p>	<ul style="list-style-type: none"> <li>• In terms of the Unit Trusts Control Act, 1981 (Act 54 of 1981), to conduct a unit trust scheme, has to be registered in terms of the Act.</li> <li>• Unit trust management companies (''UTMC'') must be a public company.</li> <li>• UTMC must have a minimum capital of R 2 million.</li> <li>• UTMC must invest at least 10% of own resources in each portfolio (''FSB'') has discretion to limit investment to R 1 million.</li> <li>• Registration of UTMC must be in public interest.</li> <li>• FSB must approve shareholding in UTMC.</li> </ul> <p>FSB, established in terms of the Financial Services Board Act, 1988, regulating the Unit Trusts Control Act, 1981 (Act 54 of 1981).</p>
<p><b>PRINCIPLE 2</b> <b>Trustee / Custodian / Depository</b></p>	
<p><u>Independence</u></p> <p><u>Capital Requirements</u></p> <p><u>Other Qualifying Requirements</u></p>	<p>Trustee should not be a holding company or subsidiary company.</p> <p>Trustee must have paid-up capital and unimpaired reserves of R 1 million.</p> <p>Trustee must be:</p> <ul style="list-style-type: none"> <li>• a public company;</li> <li>• incorporated under a special Act;</li> <li>• a bank registered in terms of the banks Act, 1990 (Act 94 of 1990);</li> <li>• an insurer registered in the terms of the Insurance Act, 1997 (Act 17 of 1997);</li> <li>• registered by the FSB as a trustee;</li> <li>• of general financial and commercial standing as to fit its responsibilities of a trustee.</li> </ul>

PRINCIPLE 3 1. General Principles of Conduct	
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<p><u>A. Principles Governing Fund Management Legislation</u></p>	<p>UTMC is prohibited from:</p> <ul style="list-style-type: none"> <li>• doing any other business than that of managing a unit trust</li> <li>• encumbering any assets of the unit portfolios or borrowed portfolio;</li> <li>• investing in securities of any concern in excess of the limit and</li> <li>• investing in securities in excess of the market value of assets prescribed by the UTCA.</li> </ul>
<p><u>B. Professional Records</u></p>	<p>None.</p>
<p><i>Codes of Conduct for Management Company</i></p>	<p>The UTMC is bound by the Code of Conduct and the Code of Association of Unit Trusts ('AUT').</p>
<p><i>Asset Segregation</i></p>	<p>Underlying securities must be held in safe custody by the trustee and must be deposited in a trust account under the control of the trustee.</p>
<p><i>Personnel Experience Resources</i></p>	<p>Directors and management must pass a 'fit and proper' test.</p>
<p><i>Capital Requirements Monitoring</i></p>	<p>None.</p>
<p><b>2. Manager Powers and Duties</b></p>	<p>UTMC must have minimum paid-up capital and unimpaired reserves.</p> <ul style="list-style-type: none"> <li>• FSB monitors compliance with statutory requirements on a quarterly basis.</li> <li>• AUT monitors compliance with various Codes of Conduct.</li> <li>• Advertising Standards Authority monitors compliance with Code of Advertising Practice.</li> </ul>
<p><u>A. In the context of delegation, are there minimum duties that managers must provide?</u></p>	<p>In the management of a scheme, a UTMC has to:</p> <ul style="list-style-type: none"> <li>• manage the scheme in accordance with the UTCA and the terms of the scheme;</li> <li>• deposit all moneys in custody of the trustee;</li> <li>• deliver scrip of underlying securities to trustee for sale to unit holders;</li> <li>• prepare quarterly reports of the structure of unit portfolios to the FSB;</li> <li>• furnish each unit holder with a copy of the annual financial statements;</li> <li>• maintain a register of unit holders;</li> <li>• repurchase units at the request of a unit holder at the request of the trustee;</li> <li>• publish sale and repurchase prices on a daily basis;</li> <li>• ensure that authorized agents comply with statutory requirements.</li> </ul>
<p>In particular, do managers have to provide: Status of Scheme / Book Keeping / Cash / Settlement / Investment Decisions?</p>	<p>A UTMC has to:</p> <ul style="list-style-type: none"> <li>• furnish the FSB with quarterly reports of the structure of the scheme, the percentage invested in each concern and also as a percentage of the total assets of the UTMC;</li> <li>• prepare annual financial statements of the UTMC and of each FSB and furnished to each unit holder.</li> </ul>
<p><b>3. Compliance</b></p>	<p>No - only quarterly reports on the structure of various unit portfolios and independent performance figures are published monthly and quarterly.</p>
<p><u>A. Do fund managers have to give information of funds performance to regulators?</u></p>	<p>Annual financial statements of the UTMC and of each portfolio are furnished to each unit holder.</p>
<p><u>B. And to the shareholders of the funds they manage?</u></p>	<p>Financial statements shall be audited by an auditor approved by the FSB.</p>
<p><u>C. Do their financial statements have to be audited?</u></p>	<p>A UTMC shall:</p> <ul style="list-style-type: none"> <li>• comply with the statutory investment limits;</li> <li>• ensure compliance by each portfolio with its investment policy;</li> <li>• ensure that only securities that qualify be included in a portfolio;</li> <li>• ensure that prices are calculated in accordance with the rules of the scheme.</li> </ul>
<p><u>D. Any other on-going obligations?</u></p>	<p>None.</p>



PRINCIPLE 4 1. Maintaining Protection	
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<p><u>A. Describe the legal or regulatory requirements for an entity advising fund managers</u></p> <p><u>B. Do they require registration or individual approval by regulator?</u></p> <p><u>C. Does the manager remains responsible for acts and omissions of the adviser?</u></p> <p><u>D. Sanctions against advisers?</u></p> <p><u>E. (I) Manager Oversight of Regulator</u></p> <p><u>(II) Manager Contract with Regulator</u></p> <p><u>F. Contractual Obligations</u></p>	<p>No legal requirements.</p> <p>No.</p> <p>Not applicable.</p> <p>Not applicable.</p> <p>Asset manager has to pass "fit and proper" test.</p> <p>Asset manager enters into agreement with UTMC if independent</p> <p>Asset manager enters into agreement with UTMC if independent</p>
<p><b>2. Exclusion of Regulatory Competition</b></p> <p>Using external fund managers should not diminish the effectiveness of primary regulation of the funds under management. The investment adviser should follow similar regulatory principles to that of the main scheme.</p> <p><u>A. Levels of Regulation for an Advisor</u></p> <p><u>(I) Must the adviser comply with eligibility requirements applicable to its investment advising activities?</u></p> <p><u>(II) Must the adviser comply with all regulatory requirements in relation to the conduct of its business activities?</u></p> <p><u>(III) Do your regulations provide for sanctions against the adviser?</u></p>	<p>Asset manager has to pass "fit and proper" test.</p> <p>Asset manager enters into agreement with UTMC if independent</p> <p>No regulatory requirements are applicable. However, the con in the interest of unit holders.</p> <p>No. But if actions of asset manager are not in the interest take steps to remove it.</p>



<p><b>PRINCIPLE 5</b> <b>Supervisory Role of Auditor</b></p>	
<p><u>Other than audit of annual independence?</u></p> <p><u>If so what?</u></p> <p><b>Role of Regulatory Authority</b></p> <p><u>On-going monitoring and supervision?</u></p> <p><b>Enforcement Powers</b></p> <p><u>Inspection</u></p>	<p>Auditors must furnish quarterly certificate that:</p> <p>a) systems of control are designed to prevent or deter any inclusion of derivative instruments;</p> <p>b) the systems operate efficiently as designed.</p> <p>If no audit committee exists, the external auditor must certify that the systems are functioning properly.</p> <p>Regulatory requirements are monitored on a quarterly and annual basis.</p> <p>The FSB has power to perform:</p> <p>a) routine inspections of schemes; or</p> <p>b) "ad hoc" inspections if and when required.</p>
<p><b>PRINCIPLE 6</b></p>	

<p>1. Soft Dollar Arrangements</p> <p>2. Purchase of Underwritten Securities</p> <p>3. Purchase of Managers Securities</p> <p>4. Principle Transactions with Affiliates</p> <p>5. Joint Transactions</p> <p>6. Borrowing and Lending to Affiliates</p> <p><b>MANAGER ACTIVITIES</b></p> <p><u>A. Acting as a Broker</u></p> <p><u>B. Purchasing for Fund and Other Clients</u></p> <p><u>C. Purchasing for Fund and Manager's Own Account</u></p> <p><u>D. Effecting a Securities Transaction</u></p> <p><i>Third Party Supervisor</i></p> <p><i>Role and Power of Supervisor</i></p> <p><i>Inspection of Regulator</i></p> <p><i>Powers of Regulator</i></p>	<p>None.</p> <p>Not allowed.</p> <p>A UTMC is allowed to purchase and sell units in a scheme for to purchase shares issued by UTMC.</p> <p>Not allowed but may invest in listed shares of affiliates.</p> <p>No regulation but not allowed as it would entail encumbrance</p> <p>Not allowed.</p> <p>Not allowed - may not conduct business other than that of UTMC</p> <p>May only purchase securities for unit portfolios.</p> <p>May only purchase securities for unit portfolios - can account but only out of own resources.</p> <p>Must comply with provisions of UTCA and trust deed.</p> <p>Must ensure that only securities permitted by investment policy</p> <p>Regular and ad hoc inspections.</p> <p>Monitoring of securities transactions of a quarterly basis.</p>
<p><b>PRINCIPLE 7</b> <b>Asset Valuation and Pricing</b></p>	
<p><u>Method of Valuation</u></p> <p><u>Purchasing of Units</u></p> <p><u>Redemption of Units</u></p> <p><u>Pricing of Units</u></p>	<p>Mark to market.</p> <p>According to market value as prescribed per formula in trust</p> <p>Market value of units less certain compulsory charges.</p> <p>According to market value as prescribed per formula in trust</p>
<p><b>PRINCIPLE 8</b> <b>Eligible Instruments</b></p>	

<p><u>1. Transferable Securities</u></p> <p><u>2. Money Market Instruments</u></p> <p><u>3. Other CIS Units</u></p> <p><u>4. Derivative Instruments</u></p> <p><u>5. Banks Deposits or Other Liquid Assets</u></p> <p><u>6. Other Financial Instruments</u></p> <p><b>Limitations</b></p> <p><u>A. Investment Limitations</u> <u>Transferable Securities and MMI</u></p> <p><i>On Voting Rights</i></p> <p><i>On CIS Units</i></p> <p><i>On Derivatives</i></p> <p><b>Other Limitations</b></p> <p><u>B. Borrowing and Lending Limitations</u></p> <p><i>Borrowing of Liquidities</i></p> <p><i>Borrowing of Securities</i></p> <p><i>Lending of Liquidities</i></p> <p><i>Lending of Securities</i></p> <p><i>Limitations of REPOS</i></p>	<p>Yes - may be included as defined as securities in the UTCA.</p> <p>Yes - excluding bankers' acceptances.</p> <p>No - only units in property unit trust schemes as listed included.</p> <p>Yes - subject to certain limitations and for purposes of hedging.</p> <p>Yes.</p> <p>Only those recognized by the FSB.</p> <ul style="list-style-type: none"> <li>• Up to 5% of any one concern with market capitalization less than R 2 billion.</li> <li>• Up to 10% of any one concern with market capitalization in excess of R 2 billion.</li> <li>• Up to 5% of market value of portfolio in any one concern less than R 2 billion.</li> <li>• Up to 10% of market value of portfolio in any one concern in excess of R 2 billion.</li> </ul> <p>UTMC must exercise voting rights to best serve the interest of investors.</p> <p>Not allowed.</p> <p>Total exposure limited to 20% of market value of portfolio - by cash or underlying securities.</p> <p>No borrowing or lending is allowed.</p> <p>Not allowed.</p> <p>Not allowed.</p> <p>Not allowed.</p> <p>Not allowed.</p> <p>Not allowed.</p>
<p><b>PRINCIPLE 1</b> <b>Legal Form and Structure</b></p>	

<p><u>Legal Requirement</u></p>    <p><u>Regulatory Body</u></p>	<p>Under the Thai Securities and Exchange Act B.E. 2535, classified as securities business which requires a license upon the recommendation of the SEC.</p> <p>Mutual fund management company (MFMC) shall have a minimum Baht 100 million (or 4 million dollars U.S.).</p> <p>Mutual fund set up by MFMC and registered with the office of person.</p> <p>Each fund must be supervised by an independent financial institution as a fund supervisor (similar to trustee).</p> <p>Securities and Exchange Commission.</p>
<p><b>PRINCIPLE 2 Trustee / Custodian / Depository</b></p>	
<p><u>Independence</u></p> <p><u>Capital Requirements</u></p>  <p><u>Other Qualifying Requirements</u></p>	<p>The fund supervisor shall be an independent financial institution or same core shareholders with MFMC.</p> <p>A requirement for a fund supervisor must be a commercial bank with more than Baht 5 000 million (or 200 million dollars U.S.) or securities company with more than Baht 750 million (or 30 million dollars U.S.) total asset.</p> <ul style="list-style-type: none"> <li>• Gross profit for 5 consecutive years.</li> <li>• No significant cross-holding of mutual fund supervisor and other financial institutions.</li> <li>• Arrangement of organizational structure and internal control system to fulfill the duties of mutual fund supervisor.</li> </ul>
<p><b>PRINCIPLE 3 1. General Principles of Conduct</b></p>	

<p><u>A. Principles Governing Fund Management Legislation</u></p>	<p>In the management of a mutual fund, MFMC is prohibited from:</p> <ol style="list-style-type: none"> <li>1. engaging in any act which may create a conflict of interest;</li> <li>2. investing in or holding shares of MFMC managing that mutual fund;</li> <li>3. investing in or holding investment units of other mutual funds;</li> <li>4. investing in or holding securities of any company exceeding 10% of the assets of the mutual fund;</li> <li>5. borrowing in the name of the mutual fund or creating any debt of the mutual fund.</li> </ol>
<p><u>B. Professional Records</u></p> <p><i>Codes of Conduct for Management Company</i></p> <p><i>Asset Segregation</i></p> <p><i>Personnel Experience</i></p> <p><i>Resources</i></p> <p><i>Capital Requirements</i></p> <p><i>Monitoring</i></p>	<p>None.</p> <p>Association of the management company is in the process of being established for the management company.</p> <p>The assets of the mutual fund must be deposited into the custody of the supervisor.</p> <p>Director of MFMC is required to hold at least a bachelor's degree and 3 years experience in financial institution. An individual fund manager must:</p> <ul style="list-style-type: none"> <li>• register with the office of the SEC;</li> <li>• has at least 3 year experience if he does not hold a master's degree;</li> <li>• be an employee of MFMC.</li> </ul>
<p><b>2. Manager Powers and Duties</b></p> <p><u>A. In the context of delegation, are there minimum duties that managers must provide?</u></p>	<p>None.</p> <p>MFMC must have minimum registered capital of Baht 100 million (equivalent to 100 million U.S. dollars).</p> <p>The mutual fund supervisor has duty to ensure that the mutual fund complies with rules and regulations.</p>
<p>In particular, do managers have to provide: Status of Scheme / Book Keeping / Cash / Settlement / Investment Decisions?</p>	<p>In the management of a mutual fund, MFMC has to:</p> <ol style="list-style-type: none"> <li>1. manage a mutual fund strictly in accordance with the approval of the committee and the commitment made with the unitholders;</li> <li>2. deposit the assets of the mutual fund into the custody of the supervisor;</li> <li>3. prepare correct and complete accounts of investment;</li> <li>4. prepare investment reports of the mutual fund for the supervisor;</li> <li>5. prepare and maintain a unitholders register;</li> <li>6. arrange for the collection of returns on investments of unitholders and deposit them into the custody of the supervisor.</li> </ol> <p>Yes, except settlement which will be done by the fund supervisor.</p>
<p><b>3. Compliance</b></p> <p><u>A. Do fund managers have to give information of funds performance to regulators?</u></p>	<p>Currently, fund manager has to prepare investment reports for the fund supervisor.</p>
<p><u>B. And to the shareholders of the funds they manage?</u></p>	<p>Yes, the unitholders would annually receive the scheme's annual report.</p>
<p><u>C. Do their financial statements have to be audited?</u></p>	<p>Financial statements shall be audited by an auditor approved by the SEC to be the auditor for such financial year.</p>
<p><u>D. Any other on-going obligations?</u></p>	<p>MFMC shall strictly perform his duties in accordance with the regulations.</p>

PRINCIPLE 4 1. Maintaining Protection	
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<p><u>A. Describe the legal or regulatory requirements for an entity advising fund managers</u></p>	<p>An entity could not be an adviser unless acquires an investment from the Minister of Finance.</p>
<p><u>B. Do they require registration or individual approval by regulator?</u></p>	<p>Presently, no registration is required for an individual investor. An individual must be an employee of a licensed company.</p> <p>No.</p>
<p><u>C. Does the manager remain responsible for acts and omissions of the adviser?</u></p>	<p>An adviser who fails to comply with rules and regulation is liable.</p>
<p><u>D. Sanctions against advisers?</u></p>	<p>MFMC shall get the approval from the office of the SEC to seek modification of the scheme could be made upon the office of the resolution of the majority of unitholders.</p>
<p><u>E. (I) Manager Oversight of Regulator</u></p>	
<p><u>(II) Manager Contract with Regulator</u></p>	<p>Management of the fund in accordance with the approved scheme is an obligation between unitholders and MFMC.</p>
<p><u>F. Contractual Obligations</u></p>	<p>External fund manager is not allowed.</p>
<p><b>2. Exclusion of Regulatory Competition</b></p>	
<p>Using external fund managers should not diminish the effectiveness of primary regulation of the funds under management. The investment adviser should follow similar regulatory principles to that of the main scheme.</p>	<p>Yes.</p> <p>Yes.</p>
<p><u>A. Levels of Regulation for an Advisor</u></p>	<p>Yes.</p>
<p><u>(I) Must the adviser comply with eligibility requirements applicable to its investment advising activities?</u></p>	<p>Yes.</p>
<p><u>(II) Must the adviser comply with all regulatory requirements in relation to the conduct of its business activities?</u></p>	
<p><u>(III) Do your regulations provide for sanctions against the adviser?</u></p>	

<p><b>PRINCIPLE 5</b>  <b>Supervisory Role of Auditor</b></p>	
<p><u>Other than audit of annual independence?</u></p> <p><b>Role of Regulatory Authority</b></p> <p><u>On-going monitoring and supervision?</u></p> <p><b>Enforcement Powers</b></p> <p><u>Inspection</u></p>	<p>No supervisory role of auditor other than audit of annual rep</p> <p>Auditor who fails to comply with the standard set up by the accountants or any additional standard imposed by the SEC liability and have a status of approval being revoked.</p> <p>Periodic inspection by the office of the SEC.</p>
<p><b>PRINCIPLE 6</b></p>	



<p>1. Soft Dollar Arrangements</p> <p>2. Purchase of Underwritten Securities</p> <p>3. Purchase of Managers Securities</p> <p>4. Principle Transactions with Affiliates</p> <p>5. Joint Transactions</p> <p>6. Borrowing and Lending to Affiliates</p>	<p>No regulation.</p> <p>No regulation.</p> <p>Not allowed.</p> <p>No regulation.</p> <p>No regulation.</p> <p>MFMC is not allowed to conduct any other activities except b</p> <p>Currently, MFMC is not allowed to conduct any other act manager.</p>
<p><b>MANAGER ACTIVITIES</b></p> <p><u>A. Acting as a Broker</u></p> <p><u>B. Purchasing for Fund and Other Clients</u></p> <p><u>C. Purchasing for Fund and Manager's Own Account</u></p> <p><u>D. Effecting a Securities Transaction</u></p> <p><i>Third Party Supervisor</i></p> <p><i>Role and Power of Supervisor</i></p> <p><i>Inspection of Regulator</i></p> <p><i>Powers of Regulator</i></p>	<p>Supervisor shall be independent financial institution such company or security company.</p> <p>The mutual fund supervisor shall have the power and duties to</p> <ol style="list-style-type: none"> <li>1. ensure that MFMC strictly perform his duty;</li> <li>2. accept into custody assets of the mutual fund and separate well as ensure the disposition of the mutual fund in accordance with the scheme;</li> <li>3. prepare deposit and payment accounts of the assets of the mutual fund;</li> <li>4. prepare a report to the SEC in the event that MFMC has done any act which has cause damage to the mutual fund;</li> <li>5. file a legal action in court to cause MFMC to perform compensation for damage from MFMC for the benefit of unitholders instructed by the SEC.</li> </ol> <p>Periodic inspection.</p> <ul style="list-style-type: none"> <li>• Submission of report, statement, and computer diskette;</li> <li>• power to make an on site inspection;</li> <li>• power to trace through bank and other financial institutions;</li> <li>• power of attachment and freezing of assets.</li> </ul>

<b>PRINCIPLE 7</b> <b>Asset Valuation and Pricing</b>	
<u>Method of Valuation</u>	Listed securities: mark to market. Unlisted securities: fair price agreed by the fund supervisor
<u>Purchasing of Units</u>	NAV + selling fee.
<u>Redemption of Units</u>	NAV - redemption fee.
<u>Pricing of Units</u>	Forward pricing shall be based on net asset value of the fund
<b>PRINCIPLE 8</b> <b>Eligible Instruments</b>	

<p><u>1. Transferable Securities</u></p>	<p>Yes.</p>
<p><u>2. Money Market Instruments</u></p>	<p>Yes, one-year bill which is guaranteed or has an aval by financial institution.</p>
<p><u>3. Other CIS Units</u></p>	<p>Yes.</p>
<p><u>4. Derivative Instruments</u></p>	<p>Not allowed, except for certain derivative instruments such as interest rate and currency debentures.</p>
<p><u>5. Banks Deposits or Other Liquid Assets</u></p>	<p>Yes. Also C/D and P/N issued by financial institution to money market.</p>
<p><u>6. Other Financial Instruments</u></p>	<p>No comments.</p>
<p><b>Limitations</b></p>	<p>Equity fund.</p>
<p><u>A. Investment Limitations</u></p>	<p>• Up to 15% of NAV in any one issuer; • Up to 15% of total outstanding shares of any single issuer; • Up to 30% of NAV in any single sector; • Up to 5% of NAV in warrants; • Up to 25% of any single issuer in all schemes under the same management; • Fixed income fund; • Up to 20% of NAV in any single issuer; • Up to 35% of NAV in any single sector; • Up to 30% of NAV in short-term bill of exchange and promissory notes; • Up to 45% in certificate of deposits, bank deposits; • Up to 35% of NAV in fixed income instruments which are not publicly placed.</p>
<p><u>Transferable Securities and MMI</u></p>	<p>No regulation, but as a rule, MFMC should refrain from exercising voting rights.</p>
<p><i>On Voting Rights</i></p>	<p>Investment limit on CIS under management of other MFMC:</p>
<p><i>On CIS Units</i></p>	<p>• Up to 10% of NAV in any single CIS; • Up to 10% of outstanding units of any single CIS; • Up to 20% of NAV in all CIS.</p>
<p><i>On Derivatives</i></p>	<p>Not applicable.</p>
<p><b>Other Limitations</b></p>	<p>Not allowed.</p>
<p><u>B. Borrowing and Lending Limitations</u></p>	<p>Not allowed.</p>
<p><i>Borrowing of Liquidities</i></p>	<p>Not allowed.</p>
<p><i>Borrowing of Securities</i></p>	<p>Not allowed.</p>
<p><i>Lending of Liquidities</i></p>	<p>Not allowed.</p>
<p><i>Lending of Securities</i></p>	<p>Not allowed.</p>
<p><i>Limitations of REPOS</i></p>	<p>Not allowed.</p>

