

GUIDANCE NOTE 11

Date issued: 17 May 2006

Issued Pursuant to the Guidelines on Unit Trust Funds

- Investments in Warrants and Options

Introduction

1. This Guidance Note is published pursuant to Section 158 of Securities Commission Act, 1993 to notify an amendment in relation to unit trust investments in warrants and options currently stipulated under Clause 10.04 and Schedule C – Appendix I and IV of the Guidelines on Unit Trust Funds (Guidelines).
2. Nothing contained herein should be construed as prejudicing the powers of the Securities Commission under the Guidelines.

Definition

3. "***financial institution***" means any locally incorporated institution that is licensed and regulated by Bank Negara Malaysia and/or Securities Commission or foreign incorporated institution that is regulated by an equivalent regulatory authority abroad.

Policy Amendment

4. Under this Guidance Note, clauses 10.04(1), (2) and (3) shall be deleted in its entirety and substituted with the following provisions.

(1) Subject to this clause, the investments of the fund may include warrants and options.

Note

Options would include futures options and eligible exchange-traded options currently defined under futures contract in the Futures Industry Act 1993.

- (2) In addition to the requirements under clause 10.01(2), the warrants and options must carry the right in respect of a security listed / instruments traded on an eligible market.
- (3) Notwithstanding clauses 10.01(2) and 10.04(2), the investments of the fund may consist of options traded over-the-counter (OTC), subject to the following:
 - (a) the underlying of an option transaction must consist of permissible investments under these Guidelines;
 - (b) the issuer of the option must be a financial institution with a minimum long-term rating that indicates strong capacity for timely payment of financial obligations provided by any domestic or global rating agency;
 - (c) investments in options must not cause the fund to diverge from its investment objectives;
 - (d) the issuer of the option must be ready to unwind, buy-back or close the transaction at the request of the management company at a fair value determined on methods or bases which have been verified by the auditor of the fund and approved by the trustee; and
 - (e) the issuer of the option must provide a reliable and verifiable valuation on a regular basis (preferably every business day) or at any time as may be requested by the management company or trustee.
- (4) Where the rating of the issuer referred under Clause 10.04(3)(b) falls below the minimum required, or the issuer ceases to be rated, the management company should, within six months or sooner (if the trustee considers it to be in the best interest of the unit holders), take the necessary action to ensure that the investments comply with the said clause.
- (5) The writing of any options by the fund is not allowed.
- (6) The investment limits referred to under Schedule C of these Guidelines

- applies to the price of the warrants and the premium of the options.
- (7) The concentration limits referred to under Schedule C of these Guidelines shall not apply to investments in OTC options.
 - (8) The management company must have in place the necessary risk management measures that would enable the management company to monitor and measure the risks of the fund's position in warrants and options and their contribution to the overall risk profile of the fund.
 - (9) There should be clear disclosures in the prospectus on the type of warrants and options the fund may invest in, the risks inherent when investing in warrants and options including the risk management measures adopted in such investments as well as measures to be taken in the event of a downgrade in the rating of the issuer in the case of OTC options.

Amendment to Schedule C

5. Under this Guidance Note, the provision under Clause 1.0(2), Schedule C – **Appendix I** (Non-Specialised Funds) of the Guidelines will be amended to read as follows:

(2) Subject to Clause 10.04 of these Guidelines, the value of the fund's holding in warrants and options must not exceed 15% of the fund's NAV.

6. A new provision is introduced under Clause 1.0, Schedule C – **Appendix IV** (Capital Protected Funds) of the Guidelines as follows:-

(4A) Notwithstanding Clause 1.0(2) of this Appendix IV and subject to Clauses 10.04 and 10.04A of these Guidelines, the value of the fund's holding in warrants, options and structured products must not exceed 15% of the fund's NAV.