

## **GUIDANCE NOTE 12**

Date issued: 17 May 2006

### **Issued Pursuant to the Guidelines on Unit Trust Funds**

- Investments in Structured Products

#### **Introduction**

1. This Guidance Note is published pursuant to Section 158 of Securities Commission Act, 1993 to notify a new policy in relation to permissible investments by unit trust funds currently stipulated under Chapter 10 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. "**Structured product**" has the same meaning as is assigned to that expression in the Guidelines on the Offering of Structured Products.
4. "**Eligible issuers**" are persons deemed eligible to issue / offer structured products in Malaysia under the Guidelines on the Offering of Structured Products.

#### **Policy Amendment**

5. A new provision is introduced as clause 10.04A under Chapter 10 of these Guidelines as follows:-

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| <ol style="list-style-type: none"><li>(1) Notwithstanding clause 10.01(2) and subject to this clause, the investments of the fund may include structured products.</li><li>(2) In investing in structured products, the management company must ensure that:<ol style="list-style-type: none"><li>(a) investments in structured products must not cause the fund to</li></ol></li></ol> |
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- diverge from its investment objectives;
- (b) the counter-party or issuer of the structured product:-
    - (i) must be eligible issuers (for structured products offered in Malaysia) or issuers regulated by the relevant regulatory authority (for structured products offered outside Malaysia)
    - (ii) (unless otherwise stated in these Guidelines) must have a minimum long-term rating that indicates adequate capacity for timely payment of financial obligations provided by any domestic or global rating agency;
  - (c) (where the structured products are not tradable or transferable) the counter-party or issuer 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
  - (d) the counter-party or issuer must provide a reliable and verifiable valuation on a regular basis (preferably every dealing day) or at any time as may be requested by the management company or trustee.
- (3) Where the rating of the counter-party or issuer falls below the minimum required, or the counter-party or 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.
- (4) The concentration limits referred to under Schedule C of these Guidelines shall not apply to investments in structured products.
- (5) 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 structured products and their contribution to the overall risk profile of the fund.

(6) There should be clear disclosures in the prospectus on the type and characteristics of the structured products the fund may invest in, the risks inherent when investing in structured products 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 a counter-party or issuer.

### **Amendment to Schedule C**

6. A new provision is introduced under Clause 1.0, Schedule C - **Appendix I** (Non-Specialised Funds) of the Guidelines as follows:

(5) Subject to Clause 10.04A Chapter 10 of these Guidelines, the value of the fund's holding in structured products issued by any single issuer must not exceed 15% of the fund's NAV. The single issuer limit may be exceeded if the issuer has a minimum long-term rating that indicates very strong capacity for timely payment of financial obligations provided by any domestic or global rating agency and the structured product has a capital protection feature.

7. As amended via Guidance Note 11, a new provision was 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.