



Suruhanjaya Sekuriti
Securities Commission
Malaysia

GUIDELINES ON UNIT TRUST FUNDS

SC-GL/GUTF-2008 (R6-2022)

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GUIDELINES ON UNIT TRUST FUNDS

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Chapter 1

INTRODUCTION

- 1.01 The *Guidelines on Unit Trust Funds* (Guidelines) is issued by the SC pursuant to section 377 of the *Capital Markets and Services Act 2007* (CMSA). These Guidelines set out the requirements to be complied with by any person seeking authorisation under the CMSA to make available, offer for subscription or purchase, or issue an invitation to subscribe for or purchase a unit trust fund.
- 1.02 These Guidelines are aimed at providing a regulatory environment that would protect the interests of the investing public and facilitate the orderly development of the unit trust industry in Malaysia. In addition, these Guidelines are also drawn up to govern the operation of unit trust funds established in Malaysia.
- 1.03 The securities laws and these Guidelines form the regulatory framework for unit trust funds in Malaysia, and must be read together. All parties to a unit trust fund are expected to be guided by the letter and spirit of the regulatory requirements.
- 1.03A In addition to complying with these Guidelines, any person seeking authorisation under the CMSA to make available, offer for subscription or purchase, or issue an invitation to subscribe for or purchase an Islamic unit trust fund must also comply with the *Guidelines on Islamic Capital Market Products and Services*.

- 1.04 Guidance on the application of the requirements of these Guidelines has been provided, where appropriate. Any departure from the Guidance will be taken into consideration in the SC's assessment on whether a breach of these Guidelines had occurred.
- 1.05 An applicant is encouraged to consult the SC on the application of these Guidelines.
- 1.06 The SC may, upon application, grant an exemption from or a variation to the requirements of these Guidelines if the SC is satisfied that–
 - (a) such variation is not contrary to the intended purpose of the relevant requirement in these Guidelines; or
 - (b) there are mitigating factors which justify the said exemption or variation.
- 1.07 In addition to the requirements under these Guidelines, any person intending to offer a unit trust fund in any jurisdiction of an ACMF Signatory must also observe and ensure compliance with the Standards of Qualifying CIS¹.
- 1.08 A prospectus for the issuance of, offering for subscription or purchase, or invitation to subscribe for or purchase, any unit in a unit trust fund must be registered by the SC and comply with the requirements of the CMSA and the *Prospectus Guidelines for Collective Investment Schemes*.

¹ The Standards can be found at www.acmf.org

Chapter 2

DEFINITIONS

2.01 Unless otherwise defined, all words in these Guidelines shall have the same meaning as defined in the CMSA. In these Guidelines, unless the context otherwise requires:

accounting records	includes invoices, receipts, orders for payment of money, bills of exchange, cheques, promissory notes, vouchers and other documents of prime entry and also includes such working papers and other documents as are necessary to explain the methods and calculations by which financial statements are made up;
approved accounting standards	has the meaning assigned to it in the <i>Financial Reporting Act 1997</i> ;
ACMF	means the ASEAN Capital Markets Forum;
ACMF Retail MoU	means the memorandum of understanding on streamlined authorisation framework for cross-border public offers of ASEAN collective investment schemes;

ACMF Signatory	means the securities regulator of the ASEAN jurisdiction which has signed the ACMF Retail MoU;
adviser	means a holder of a CMSL for advising on corporate finance or such other person as may be approved by the SC based on the person's qualification, expertise and experience;
ASEAN CIS	means a Qualifying CIS;
base currency	means the currency specified in the deed of the fund as the currency in which the fund is denominated;
classes of units	means two or more classes of units representing similar interests in the fund's assets;
close-ended fund	means a fund with limited number of units in issue and has a limited offer period;
CMSA	means the <i>Capital Markets and Services Act 2007</i> ;
collective investment scheme (CIS)	means any arrangement where— (a) it is made for the purpose, or having the effect, of providing facilities for persons to participate in or receive profits or income arising from the

acquisition, holding, management or disposal of securities, derivatives or any other property (hereinafter referred to as fund's assets) or sums paid out of such profits or income;

- (b) the persons who participate in the arrangements do not have day-to-day control over the management of the fund's assets;
- (c) the contributions from the persons who participate in the arrangements and the profits or income from which payments are made, are pooled; and
- (d) except for physically-backed metal exchange-traded fund (ETF), the fund's assets are managed by an entity who is responsible for the management of the fund's assets and is approved, authorised, or licensed by a securities regulator to conduct fund management activities;

For the purpose of these Guidelines, the definition of CIS does not include business trusts;

controlling
shareholder

means any person who is, or a group of persons who collectively are, entitled to exercise or control the exercise of more than 33% of the voting shares or voting rights in a corporation or who is or are in a position to control the composition of a majority of the board of directors of such corporation;

cooling-off
right

means the right of a unit holder to obtain a refund of the unit holder's investment in the fund, if the unit holder so requests within the cooling-off period;

debt securities

means transferable securities referred to in paragraphs 6.08(b) and (c);

derivative

means a financial derivative instrument or transaction, the value of which depends upon the value of underlying indices or assets such as currencies, securities, commodities or other derivative instruments;

eligible market	<p>means an exchange, government securities market or an over-the-counter (OTC) market–</p> <ul style="list-style-type: none">(a) that is regulated by a regulatory authority of that jurisdiction;(b) that is open to the public or to a substantial number of market participants; and(c) on which financial instruments are regularly traded;
fair value	<p>means, the price that the fund would reasonably expect to receive upon the current sale of the investment;</p>
financial institution	<p>means, if the institution is in Malaysia, licensed bank; licensed investment bank; or licensed Islamic bank; or if the institution is outside Malaysia, any institution that is licensed, registered, approved, or authorised by the relevant banking regulator to provide financial services;</p>
financial statements	<p>has the meaning as set out in the approved accounting standards issued or approved by the Malaysian Accounting Standards Board pursuant to the <i>Financial Reporting Act 1997</i>;</p>
forward price	<p>means the price of a unit that is the NAV per unit calculated at the next</p>

	valuation point after an instruction or a request is received;
fund applicant	means a person who submits an application to subscribe for units in a unit trust fund;
fund manager	means a person who undertakes the fund management function, or part thereof, for a unit trust fund and who is either– (a) a holder of a Capital Markets Services Licence for the regulated activity of fund management; or (b) in the case of a company outside Malaysia, a person properly licensed or authorised by the relevant regulator in its home jurisdiction to carry out fund management activities;
fund reports	means the annual report and semi-annual report of the unit trust fund, collectively;
group of companies	means any company and its related corporations;
historical price	means the price of a unit that is the NAV per unit calculated at the

valuation point before an instruction or request is received;

independent member

in relation to the board of directors of a management company, or the Shariah adviser, means a person who is free of any relationship with the management company, or a controlling shareholder of the management company that would otherwise interfere with the member's exercise of independent judgement. In any case, a period of six months must elapse before a person who was previously connected to the management company, or a controlling shareholder can be deemed to be independent. The following is a non-exhaustive list of persons that would not be considered as an 'independent member':

- (a) In relation to the board of directors of a management company, an officer of the management company but excluding its independent director;
- (b) In relation to a Shariah adviser, an officer of the management company;

- (c) An officer of the trustee of the fund;
- (d) An officer of any body corporate or unincorporated body that has the power to appoint or make recommendations towards the appointment of members of the board of directors of the management company, or the Shariah adviser of the fund;
- (e) A person related to an officer of the management company or trustee of the fund;
- (f) A person representing or seen to be representing the controller of the management company; or
- (g) A person who, within six months prior to his appointment as an independent member, has derived any remuneration or benefit, other than retirement benefit, from the management company or any body corporate or unincorporated body that has the power to appoint or make recommendations towards the appointment of members of the board of directors of the

	management company, or the Shariah adviser of the fund;
inverse ETF	means an ETF whose aim is to deliver the opposite of the daily performance of the index or benchmark being tracked;
investment account	has the meaning assigned to it in the <i>Islamic Financial Services Act 2013</i> ;
leveraged ETF	means an ETF whose aim is to deliver multiples of the daily performance of the index or benchmark;
licensed bank	has the meaning assigned to it in the <i>Financial Services Act 2013</i> ;
licensed investment bank	has the meaning assigned to it in the <i>Financial Services Act 2013</i> ;
licensed Islamic bank	has the meaning assigned to it in the <i>Islamic Financial Services Act 2013</i> ;
liabilities of the fund	include all amounts payable by the fund, accrued expenses and taxes, and any appropriate provisions for contingencies;
major shareholder	means a person who has an interest or interests in one or more voting shares in a company and the nominal amount of that share, or the

aggregate of the nominal amounts of those shares, is–

- (a) equal to or more than 10% of the aggregate of the nominal amounts of all the voting shares in the company; or
- (b) equal to or more than 5% of the aggregate of the nominal amounts of all the voting shares in the company where such person is the largest shareholder of the company.

For the purpose of this definition, 'interest or interests in one or more voting shares' has the meaning assigned to 'interest in share' in section 8 of the *Companies Act 2016*;

net asset value
(NAV)

means the value of all the fund's assets less the value of all the fund's liabilities at the valuation point;

ordinary
resolution

means a resolution passed by a simple majority of votes validly cast at a meeting of unit holders;

partner

in relation to a director, chief executive officer or major shareholder of the management company, the management company or trustee or person connected with a

director, chief executive officer or major shareholder of the management company, the management company or trustee, means such person who falls within any of the following categories:

- (a) A person with whom the director, chief executive officer or major shareholder of the management company, the management company or trustee or person connected with a director, chief executive officer or major shareholder of the management company, the management company or trustee is in or proposes to enter into partnership with. 'Partnership' for this purpose is given the meaning under section 3 of the *Partnership Act 1961*; and
- (b) A person with whom the director, chief executive officer or major shareholder of the management company, the management company or trustee or person connected with a director, chief executive officer or major shareholder of the management company, the

management company or trustee has entered into or proposes to enter into a joint venture, whether incorporated into or not;

person
connected

in relation to a director, chief executive officer or major shareholder of the management company, the management company or trustee, means such person who falls under any of the following categories:

- (a) A family member of the director, chief executive officer or major shareholder of the management company;
- (b) A trustee of a trust, other than a trustee for an employee share scheme or pension scheme, under which the director, chief executive officer or major shareholder of the management company; management company or trustee; or a family member of the director, chief executive officer or major shareholder of the management company, is the sole beneficiary;

- (c) A partner of the director, chief executive officer or major shareholder of the management company; management company or trustee; or a partner of a person connected with that director, chief executive officer or major shareholder of the management company; management company or trustee;
- (d) A person who is accustomed or under an obligation, whether formal or informal, to act in accordance with the direction, instruction or wish of the trustee, management company, or a director, the chief executive officer or a major shareholder of the management company;
- (e) A person in accordance with whose direction, instruction or wish the trustee, management company, or a director, the chief executive officer or a major shareholder of the management company; management company or trustee; is accustomed or is under an obligation, whether formal or informal, to act;

- (f) A body corporate or its directors that is accustomed or under an obligation, whether formal or informal, to act in accordance with the directions, instructions or wishes of the trustee, management company, or a director, chief executive officer or a major shareholder of the management company;
- (g) A body corporate or its directors upon whose direction, instruction or wish the trustee, management company, or a director, chief executive officer or a major shareholder of the management company is accustomed or under an obligation, whether formal or informal, to act;
- (h) A body corporate in which the director, chief executive officer or major shareholder of the management company; management company or trustee; or persons connected to him are entitled to exercise or control the exercise of, not less than 15% of the votes attached to the voting shares in the body corporate; or

- (i) A body corporate which is a related corporation;

physically-
backed metal
ETF

means an ETF where the underlying asset comprises of–

- (a) gold bars;
- (b) silver bars;
- (c) platinum plates or ingots;
- (d) palladium plates or ingots; or
- (e) such other metals as may be specified by the SC;

Qualifying CIS

means a unit trust fund–

- (a) constituted or established in Malaysia, which has been authorised by the SC for offer to the public in Malaysia; and
- (b) has been assessed by the SC as suitable, pursuant to the Standards of Qualifying CIS, to apply to a host regulator for cross-border offering to the public in a host jurisdiction pursuant to the ACMF Retail MoU;

Qualifying CIS
Operator

means a management company–

- (a) approved under the CMSA; and
- (b) complies with the Standards of Qualifying CIS;

related party

means:

- (a) The management company of the fund;
- (b) The trustee of the fund;
- (c) A director, chief executive officer or major shareholder of the management company; or
- (d) A person connected with any director, chief executive officer or major shareholder of the management company; or a person connected with the management company or trustee;

repurchase
transactions

means 'sale and repurchase transactions' and 'reverse repurchase transactions', collectively.

reverse
repurchase
transactions

means transactions whereby a fund purchases securities from a counterparty of sale and repurchase transactions and agrees to sell such

	securities back at an agreed price in the future;
sale and repurchase transactions	means transactions whereby a fund sells its securities to a counterparty of reverse repurchase transactions and agrees to buy such securities back at an agreed price with a financing cost in the future;
securities lending	means transactions whereby a fund lends its securities to a counterparty for an agreed rate;
SC	means the Securities Commission Malaysia;
Shariah adviser	has the meaning assigned to it in the <i>Guidelines on Islamic Capital Market Products and Services</i> ;
short-term deposit	means a deposit with a tenure of not more than 12 months;
special resolution	means a resolution passed by a majority of not less than $\frac{3}{4}$ of unit holders voting at a meeting of unit holders.

For the purpose of terminating a fund, a special resolution is passed by a majority in number representing at

	least $\frac{3}{4}$ of the value of the units held by unit holders voting at the meeting;
Standards of Qualifying CIS	means a set of rules and regulations, as agreed and may be amended from time to time amongst the ACMF Signatories, which applies only to the Qualifying CIS under the ACMF Retail MoU;
stock exchange	has the meaning assigned to it in the CMSA, and includes stock exchanges in foreign jurisdictions;
total return of the fund	means the sum of the income generated by the fund which is reflected as distribution and the capital gains or loss of the fund which is reflected in the movement in the price of a unit;
transferable securities	has the same meaning assigned to it under paragraph 6.08;
units in circulation	means units created and fully paid;
unit split	refers to where a unit is split into more than one unit subsequently;
unit trust fund or fund	has the meaning assigned to 'unit trust scheme' in the CMSA, and

includes a sub-fund of an umbrella fund;

Calculation of time period

2.02 References to 'days' in these Guidelines will be taken to mean calendar days unless otherwise stated. Furthermore, any time period stated in these Guidelines where no specific method for determining the time period is set out, the period shall start on the day after the day of the event.

Chapter 3

THE MANAGEMENT COMPANY

3.01 A management company is a company that–

- (a) establishes a fund;
- (b) issues, offers for subscription, makes an invitation to subscribe for or purchase, units of the fund; and
- (c) operates and administers the fund.

3.02 A management company must–

- (a) be an entity incorporated in Malaysia; and
- (b) have a minimum shareholders' funds of RM10 million at all times.

Directors

3.03 The board of directors of a management company must comprise at least two independent members, while maintaining a minimum ratio of at least one-third independent members (board composition). Should there be a change to the board composition resulting in a breach of this requirement, the management company must take necessary steps to rectify the breach as soon as practicable and in any case, no later than three months from the date of change.

- 3.04 The independent directors of a management company must, in addition to their duties and responsibilities as directors, represent and safeguard the interests of unit holders.
- 3.05 A director of a management company must not hold office as director of more than one management company at any one time.
- 3.06 Paragraph 3.05 does not apply where the management companies satisfy the following conditions:
- (a) The management companies are related companies whereby—
 - (i) the management company is an ultimate holding company which wholly-owns the other management company;
 - (ii) the management company is a wholly-owned subsidiary of the other management company; or
 - (iii) the management companies concerned are wholly-owned subsidiaries of the same ultimate holding company; and
 - (b) The management companies have notified the respective unit holders of such director's appointment.

Roles and Responsibilities

- 3.07 In performing its duties as stipulated under the CMSA, a management company must—

- (a) exercise the degree of care and diligence that a reasonable person would exercise in the position of a management company;
- (b) act in the best interests of unit holders and, if there is a conflict between unit holders' interests and its own interests, give priority to unit holders' interests;
- (c) observe high standards of integrity and fair dealing in managing the fund to the best and exclusive interest of unit holders;
- (d) ensure that the assets of the fund are—
 - (i) clearly identified as the fund's assets; and
 - (ii) held separately from the assets of the management company and any other fund managed by the management company;
- (e) conduct all transactions for the fund on arm's length basis;
- (f) appoint a compliance officer who must directly report to the board of directors;
- (g) appoint an individual as a designated person responsible for the fund management function of the fund, whether the function is undertaken internally within the management company or externally. Where the fund management function is undertaken by an external party, the management company must ensure that the fund manager appoints a designated person for the fund;

- (h) for the purpose of paragraph 3.07(g), the designated person must be a holder of a Capital Markets Services Representative's Licence to carry on the regulated activity of fund management. Where the designated person is in a foreign fund management company, the designated person must be licensed, registered, approved or authorised to carry on the activity of fund management by the relevant regulator in his home jurisdiction;
- (i) ensure that the financial statements of the fund give a true and fair view of the fund's financial position as at the end of the fund's financial period;
- (j) establish, implement and maintain a risk management framework that is commensurate with its business;
- (k) establish, implement and maintain risk management policy and procedures of the fund, which is to be documented in a standalone document, to effectively monitor, measure and manage risks of the investment positions of the fund and their overall contributions to the risk profile of the fund. The management company must at all times–
 - (i) ensure that suitable and effective risk management and control systems are in place to monitor, measure, and manage all relevant risks in relation to the fund;
 - (ii) ensure that an effective liquidity risk management is being implemented and maintained; and

- (iii) implement and maintain effective internal policy and procedures to assess the credit risk that the fund is exposed to or will be exposed to. External ratings shall only be one of the factors to consider in assessing the credit quality of a security or instrument. Mechanistic reliance on external ratings must be avoided;
- (l) ensure that the human resource, technology and systems employed are adequately and appropriately resourced, at all times, for the proper establishment, implementation and maintenance of the risk management policy and procedures under paragraphs (j) and (k);
- (m) establish, implement, maintain policies and procedures and ensure proper records are in place in relation to the fund's valuation and pricing;
- (n) maintain an internal audit function to report on the adequacy, effectiveness and efficiency of the management, operations, risk management and internal controls; and
- (o) where any change to the fund may materially prejudice the interest of the unit holders, obtain the approval of not less than two-thirds of all unit holders at a unit holders' meeting duly convened and held.

3.08 [Deleted]

3.09 [Deleted]

Oversight on the operation and management of the fund

- 3.10 A management company must have oversight arrangement to ensure that the fund is managed in accordance with—
- (a) its deed;
 - (b) its prospectus;
 - (c) the internal investment restrictions and policies; and
 - (d) the requirements prescribed under these Guidelines.
- 3.11 The arrangement for the oversight function must be appropriate and proportionate to the nature and complexity of funds being managed by the management company. A person who undertakes the oversight function must:
- (a) In the case of an individual, the individual must be independent from the functions where the oversight arrangements are on to enable the individual to undertake its role effectively; and
 - (b) In the case of a committee, the committee may comprise of some members who are not independent from the functions of the oversight arrangements, provided that the committee as a whole must be able to undertake its roles and responsibilities effectively.
- 3.12 The roles and responsibilities of the person undertaking the oversight function includes the following:

- (a) Ensure that the investment strategies selected are properly and efficiently implemented by the fund manager;
 - (b) Actively monitor, measure and evaluate the fund management performance of the fund manager; and
 - (c) Approve the appointment of a broker or dealer as prescribed under paragraph 3.15.
- 3.13 Any person, including any members of a committee who carries out the oversight function must not be a member of the Shariah adviser appointed for the same fund.
- 3.14 Where a fund manager undertakes cross-trades between the funds it manages, or between the fund it manages and its other clients' accounts,—
- (a) the person undertaking the oversight function must approve the policies and procedures governing cross-trades; and
 - (b) the management company must provide details of any cross trades transacted to the person undertaking the oversight function.

Use of broker or dealer

- 3.15 A management company in appointing a broker or dealer must be satisfied that the dealings in the fund's assets will be effected by the broker or dealer on terms which are the most favourable for the fund (best execution basis).

Maintenance of records

- 3.16 A management company must maintain, or cause to be maintained for a period of at least seven years,—
- (a) the accounting records and other books to sufficiently explain the transactions and financial position of the fund and enable true and fair financial statements to be prepared from time to time; and
 - (b) such accounting records and other books in such a manner as will enable them to be conveniently and properly audited.

Provision of information

- 3.17 A management company must submit or make available any information relating to the fund, its business and any other information as may be required by the trustee from time to time.

Maintenance of a website

- 3.18 A management company is required to maintain a website incorporating information relating to the management company and any of its funds.
- 3.19 The details of the information to be included on the website are as set out in Schedule A.

Holding of units by management company

- 3.20 Where a management company or its related corporation holds units in a fund that it manages, it must ensure that

there are adequate policies, procedures and controls established to manage any potential conflict of interests.

Conflict of interest or related-party transactions

- 3.21 A management company and a fund manager must avoid any conflict of interest. However, where a conflict cannot be avoided, appropriate safeguards must be put in place to protect the interests of the investors and to ensure that the fund is not disadvantaged by the transactions concerned.
- 3.22 Any related party transaction, dealing, investment and appointment involving parties to a fund must be made on terms which are the best available for the fund and which are no less favourable to the fund than an arm's length transaction between independent parties.
- 3.23 The appointment or renewal of appointment of a fund manager who is a related party must be approved by the independent directors of the management company.

Training requirements

- 3.24 A management company must ensure that—
- (a) its executive directors and employees, including its compliance officer and personnel involved in operations are adequately trained and kept abreast of industry developments; and
 - (b) details of all training provided are to be properly maintained.

Corporate governance

- 3.25 A management company and the fund manager must implement good corporate governance practices and best industry standards for all activities conducted in relation to the fund.

Chapter 4

APPOINTMENT OF THIRD PARTY TO UNDERTAKE FUNCTIONS

General

- 4.01 A management company may appoint a third party to undertake its fund management function.
- 4.02 The management company is responsible for proper conduct of the function undertaken by such third party and will be held equally responsible for the action and omission by the third party.
- 4.03 For the purpose of these Guidelines, a third party appointed by a management company to undertake the fund management function for a fund will be referred to as 'fund manager'.
- 4.04 A management company must ensure that—
- (a) adequate procedures are in place to monitor the conduct of the fund manager and to ensure that the function undertaken is performed in a proper and efficient manner;
 - (b) there are controls in place to ensure compliance with the securities laws, these Guidelines, prospectus and deed; and

- (c) in relation to an appointment of a foreign fund manager, a letter of undertaking is provided by the foreign fund manager to the SC that it will maintain for a period of at least seven years, proper records–
 - (i) that sufficiently explain the transactions entered into on behalf of the fund and the financial position of the fund; and
 - (ii) that will enable such records to be conveniently and properly audited or inspected.

4.05 In appointing a fund manager, a management company must also ensure that the person appointed is suitable to undertake the particular function, including that it–

- (a) is duly licensed or authorised by the relevant authority;
- (b) has adequate financial resources;
- (c) has an adequate track record in the performance of the function; and
- (d) has adequate and appropriate human resources, systems, procedures and processes to carry out the function, including on compliance with applicable requirements and policies and procedures on internal controls.

4.06 The service agreement governing the appointment of a fund manager must, among others, contain clear provisions on–

- (a) the services to be provided;

- (b) the fees, remuneration and other charges;
- (c) any restriction or prohibition regarding the performance of the function to be undertaken; and
- (d) reporting requirements, including the line of reporting to the management company, and means of evaluating the performance of the fund manager.

4.07 An appointment of a fund manager by a management company requires prior notification to the SC in writing.

4.08 Where a management company appoints a foreign fund manager, the agreement between the management company and foreign fund manager must include, in addition to the requirements set out in paragraph 4.06, the following requirements:

- (a) Adequate training arrangements between the foreign fund manager and the management company; and
- (b) Powers of examination and inspection by the management company, the trustee and the SC to ensure that the foreign fund manager is in compliance with the applicable requirements of the securities laws, these Guidelines, prospectus or the deed.

4.09 An officer of a fund manager, must not hold office as a member of -

- (a) the oversight function of any fund for which the fund manager is appointed to manage; or

- (b) the Shariah adviser of any fund for which the fund manager is appointed to manage.

4.10 Paragraph 4.09(a) does not apply where the fund manager and the management company satisfy the following conditions:

- (a) The fund manager and the management company are related companies whereby—
 - (i) the fund manager is an ultimate holding company which wholly-owns the management company;
 - (ii) the fund manager is a wholly-owned subsidiary of the management company; or
 - (iii) the fund manager and the management company concerned are wholly-owned subsidiaries of the same ultimate holding company; and
- (b) The management company has notified the respective unit holders of such appointment.

111.01 The fund manager's remuneration must be paid by the management company and not be charged to the fund.

Chapter 5

CONSTITUTION OF THE FUND

Instrument constituting the fund

- 5.01 In addition to the requirements of the CMSA, the deed to be registered by the SC must contain the minimum requirements prescribed in Schedule D of these Guidelines.
- 5.02 The contents of the deed must not be prejudicial to the interest of a unit holder or a unit holder of any class of units, where applicable.
- 5.03 Notwithstanding paragraphs 5.01 and 5.02, a deed must not contain any matter which is inconsistent with the securities laws or the guidelines issued by the SC.
- 5.04 A management company and trustee are responsible for maintaining the deed and make necessary amendments to the deed in accordance with the securities laws and guidelines issued by the SC.

Name of Fund

- 5.05 A management company and trustee must ensure that the name of the fund or any class of units of any fund is appropriate and not misleading.
- 5.06 The SC may require the management company to change the name of the fund or any class of units of any fund if, in the opinion of the SC, the name is inappropriate or misleading.

Investment objective of the fund

- 5.07 The investment objective of a fund must be clear, specific and sufficiently stipulated in the deed.
- 5.08 Where the strategies to be adopted to meet the investment objective involve investment in a particular style, asset class, economic sector, market or geographical area, management company must ensure that an appropriate portion of the fund is invested in accordance with that intention.

Prohibition on use of the term 'capital protected'

- 5.09 The use of the term 'capital protected', or any other form of such term or words with similar meaning, in a fund's name and description is prohibited.

Chapter 6

INVESTMENTS OF THE FUND

General

- 6.01 The fund's assets must be relevant and consistent with the investment objective of the fund.
- 6.02 Reasonable steps must be taken to ensure that, taking into account the investment objective and policy of the fund, the fund's assets provide a prudent spread of risk.

Dealings in the fund's assets

- 6.03 All dealings in the fund's assets must be appropriate to the fund and consistent with the securities laws, these Guidelines, prospectus and deed.
- 6.04 The fund manager must–
- (a) inform the trustee in writing of any acquisition or disposal of a fund's assets within one business day after which the acquisition or disposal was effected;
 - (b) ensure that the fund's assets have adequate proof of title or ownership to allow proper custodial arrangements to be made; and
 - (c) cancel a transaction or make a corresponding acquisition or disposal at its own expense to secure restoration of the previous position where the trustee conveyed an opinion that a particular acquisition or disposal exceeds the powers conferred on it, or is otherwise contrary to the interests of the unit holders.

Investment powers: General

- 6.05 The fund's assets may only consist, unless otherwise provided in these Guidelines, of the following:
- (a) Transferable securities;
 - (b) Money market instruments;
 - (c) Deposits with financial institutions;
 - (d) Units or shares in CIS;
 - (e) Derivatives; and
 - (f) Securities other than (a) and (d), and investment accounts other than (b). For the purposes of these Guidelines, these financial instruments are referred to as 'other securities'.
- 6.06 A fund may not acquire any asset or engage in any transaction which involves the assumption of any liability which is unlimited.
- 6.07 Transferable securities and money market instruments held by the fund must be traded or dealt in or under the rules of an eligible market. Transferable securities that are not traded or dealt in or under the rules of an eligible market is permitted subject to the exposure limit stipulated in Schedule B of these Guidelines.

Investments in transferable securities

6.08 Transferable securities refer to—

- (a) shares or securities equivalent to shares;
- (b) bonds or other forms of securitised debt; and
- (c) sukuk,

but do not include money market instruments or any security where the title can be transferred only with the consent of a third party.

6.09 Transferable securities must meet the following criteria:

- (a) The maximum potential loss which the fund may incur as a result of the investment is limited to the amount paid for it;
- (b) The investment is liquid, and will not impair the fund's ability to satisfy its redemption and other payment commitments;
- (c) The investment is subject to reliable and verifiable valuation on a daily basis; and
- (d) There is appropriate information available to the market on the investment.

6.10 For avoidance of doubt, shares that are not listed and quoted on a stock exchange but have been approved by the relevant regulatory authority for such listing and quotation, and are offered directly to the fund by the issuer, will be deemed to

be transferable securities traded or dealt in or under the rules of an eligible market.

Investments in CIS

6.11 A fund may invest in other CIS that fall within the following categories:

- (a) A CIS authorised or recognised by the SC; or
- (b) A CIS that meets the following criteria:
 - (i) The CIS is constituted and regulated in a jurisdiction where the laws and practices provide the level of investor protection that is at least equivalent to that offered in Malaysia;
 - (ii) The rules on investments, borrowing and lending are substantially similar to the requirements in these Guidelines. This would exclude hedge funds;
 - (iii) The assets of the CIS are managed by an entity which is approved, authorised or licensed by a securities regulator to conduct fund management activities; and
 - (iv) The business of the CIS is reported in half-yearly and annual reports to enable an assessment to be made of the assets and liabilities, income and operations over the reporting period; or
- (c) A CIS that meets the following criteria:

- (i) The CIS invests in permissible investments under paragraph 6.05(a) to (e), physically-backed metal ETF that comply with paragraph 6.12, or real estate;
 - (ii) The CIS meets the criteria imposed on transferable securities as prescribed under paragraph 6.09;
 - (iii) The units or shares in the CIS are listed for quotation and traded on a stock exchange that is an eligible market; and
 - (iv) The CIS is not an inverse or leveraged product; or
- (d) A CIS that does not comply with paragraphs 6.11(a), (b) or (c), but subject to the exposure limit stipulated in Schedule B of these Guidelines.

6.12 Where a fund invests in a physically-backed metal ETF, the physically-backed metal ETF must meet the following criteria:

- (a) The assets of the physically-backed metal ETF, i.e. the physical metal, is held in trust and is segregated from the assets of the manager, sponsor, trustee or custodian; and
- (b) The physically-backed metal ETF adopts a passive management strategy with the objective of tracking the price of the metal.

6.13 Where the fund invests in a CIS operated by the same management company or its related corporation, the fund manager must ensure that—

- (a) there is no cross-holding between the fund and the CIS;
- (b) all initial charges on the CIS is waived; and
- (c) the management fee must only be charged once, either at the fund or the CIS.

Investments in derivatives

- 6.14 The fund's assets may consist of derivatives that are either listed or quoted on a stock exchange, or dealt in the OTC market, provided that the fund's global exposure from derivatives position does not exceed the fund's NAV at all times. The global exposure may be calculated using the approach described in Part 1, Appendix I of this Chapter after taking into account the fund's investment strategy, the types and complexities of the derivatives used, and the proportion of the fund's portfolio which comprise derivative instruments.
- 6.15 The underlying instruments of a derivative must only consist of permissible investments under paragraph 6.05 and may also include commodities, indices, interest rates and foreign exchange rates. Where the underlying instrument of a derivative is a commodity, such derivative must be settled in cash at all times and this must be set out in the deed and prospectus.

6.16 The derivative must meet the following criteria:

- (a) The derivative must be liquid and will not impair the fund's ability to satisfy its redemption and other payment commitments;
- (b) The exposure to the underlying assets of the derivative must not exceed the investment restrictions or limitations applicable to such underlying assets and investments as set out in Schedule B of these Guidelines;
- (c) The derivative is subject to reliable and verifiable valuation on a daily basis;
- (d) The derivative can be sold, liquidated or closed by an offsetting transaction at any time at its fair value; and
- (e) The derivative must not result in the delivery of investments other than those prescribed under paragraphs 6.05(a) to (d).

6.17 In the case of OTC derivatives, reliable and verifiable valuation pursuant to paragraph 6.16(c) refers to the following:

- (a) A valuation made by the management company based on a current market value; or
- (b) Where such value is not available, a fair value based on an appropriate valuation method which is checked at an appropriate frequency by an independent party.

Embedded derivatives

- 6.18 Where a transferable security or money market instrument embeds a derivative, the requirements in paragraphs 6.14 to 6.17 and 6.23 apply to the embedded derivative.
- 6.19 Where the counterparty risk of the embedded derivative is or may be transferred to the fund, paragraphs 6.24 and 6.25 also apply to the embedded derivative.
- 6.20 A transferable security or money market instrument is considered to be embedding a derivative if it contains a component that fulfils the following criteria:
- (a) The component results in some or all of the cash flows that otherwise would be required by the transferable security or money market instrument which functions as a host contract to be modified according to a variable including but not limited to a specified interest rate, price of a financial instrument, foreign exchange rate, index of prices or rates, credit rating or credit index, and therefore vary in a way similar to a standalone derivative;
 - (b) The component's economic characteristics and risks are not closely related to the economic characteristics and risks of the host contract; and
 - (c) The component has a significant impact on the risk profile and pricing of the transferable security or money market instrument.
- 6.21 A transferable security or a money market instrument should not be regarded as embedding a derivative where it contains a component which is contractually transferable

independently of the transferable security or money market instrument. Such a component should be deemed to be a separate financial instrument.

- 6.22 Where an instrument is structured as an alternative to an OTC derivative or tailor-made to meet the specific needs of a fund, the instrument must be deemed as embedding a derivative.

Cover

- 6.23 The management company must ensure the fund is able to meet its payment and delivery obligations incurred under transactions in derivative, whether for hedging or for investment purposes, at all times.

OTC derivatives

- 6.24 The OTC derivative must meet the following:
- (a) The counterparty of an OTC derivative must be a financial institution with a minimum long-term credit rating of investment grade (including gradation and subcategories); and
 - (b) Subject to the aggregate limit in Schedule B of these Guidelines, the maximum exposure of a fund to the counterparty, calculated based on the method as described in Part 2, Appendix 1 of this Chapter, must not exceed 10% of the fund's NAV.
- 6.25 For the purpose of paragraph 6.24(a), where the rating of the counterparty falls below the minimum required, or the counterparty ceases to be rated, the fund manager 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 requirements are complied with.

Investments in deposits

6.26 The fund's assets may consist of placement of deposits provided that it is with a financial institution.

Investments in other securities

6.27 Investment in other securities is subject to an exposure limit stipulated in Schedule B of these Guidelines.

6.28 The fund manager must ensure that there are appropriate policies and procedures for the valuation of the other securities as well as have in place the necessary risk management policy and procedures to enable it to monitor, measure and manage the risks relating to the investment and their contribution to the overall risk profile of the fund.

Securities lending and repurchase transactions

6.29 The fund may undertake securities lending and repurchase transactions provided that these are for the sole purpose of efficient portfolio management. A transaction is deemed to be for the purpose of efficient portfolio management if it meets the following criteria:

- (a) Economically appropriate and realised in a cost-effective way;
- (b) Entered into for one or more of the following specific aims:
 - (i) Reduction of risk;

- (ii) Reduction of cost; or
 - (iii) Generation of additional capital or income for the fund with a level of risk which is consistent with the risk profile of the fund and the risk diversification requirements as prescribed in these Guidelines;
- (c) The exposure is fully covered to meet any obligation to pay or deliver; and
- (d) The risks are adequately captured by the risk management policy and procedures of the fund.
- 6.30 The fund manager must ensure that it has appropriate policies and practices for the lending of securities and repurchase transactions by the fund. The fund manager must ensure that the volume of securities lending or repurchase transactions is kept at an appropriate level.
- 6.31 For the purpose of securities lending, a fund may lend its transferable securities either–
- (a) directly;
 - (b) through a standardised lending system facilitated by a clearing house which performs a central counterparty role; or
 - (c) through securities lending agents, who are recognised as specialists in securities lending.
- 6.32 Securities lending and repurchase transactions must be effected in accordance with good market practice.

- 6.33 The fund manager must have at least 100% collateralisation in respect of the securities lending and repurchase transactions into which it enters and ensure there is no uncollateralised counterparty risk exposure arising from these transactions. The collateral must meet the requirements in Appendix II of this Chapter.
- 6.34 All the revenues arising from securities lending and repurchase transactions, net of direct and indirect expenses as reasonable and normal compensation for the services rendered in the context of the securities lending and repurchase transactions, must be returned to the fund.
- 6.35 The securities lending and repurchase transactions must be permitted under the deed and disclosed in the prospectus.

Counterparty

- 6.36 The counterparty to the securities lending and repurchase transactions must be a financial institution that has a minimum top three long-term credit rating (including gradation and subcategories) provided by any Malaysian or global rating agency.
- 6.37 Where the counterparty to the securities lending and repurchase transactions is a party related to the management company or the fund manager, the management company or the fund manager, as the case may be, must have adequate arrangements in place to manage potential conflict of interests.
- 6.38 The agreement between the fund and the counterparty, either directly or through its agent, must require the counterparty to provide additional collateral to the fund or its agent no later than the close of the next business day if

the current value of the eligible collateral tendered is insufficient.

- 6.39 Except otherwise provided under paragraph 6.29, the fund's assets may not be lent. In addition, the fund may not assume, guarantee, endorse or otherwise become directly or contingently liable for, or in connection with, any obligation or indebtedness of any person.

Borrowings

- 6.40 Except otherwise provided under paragraph 6.29, the fund is prohibited from borrowing other assets (including borrowing of securities within the meaning of Securities Borrowing and Lending Guidelines) in connection with its activities.
- 6.41 Notwithstanding paragraph 6.40, the fund may borrow cash for the purpose of meeting repurchase requests for units and for short-term bridging requirements.
- 6.42 For the purpose of paragraph 6.41, the management company must ensure that—
- (a) the fund's cash borrowing is only on a temporary basis and that the borrowings are not persistent;
 - (b) the borrowing period must not exceed one month;
 - (c) the aggregate borrowings of a fund must not exceed 10% of the fund's NAV at the time the borrowing is incurred; and
 - (d) the fund only borrows from financial institutions.

Investment Limits

- 6.43 The fund manager must ensure that the investment limits and restrictions set out in Schedule B of these Guidelines are complied with at all times based on the most up-to-date value of the fund's assets.
- 6.44 The limits and restrictions in Schedule B do not apply to securities or instruments issued or guaranteed by the Malaysian government or Bank Negara Malaysia.
- 6.45 In determining compliance with the limits or restrictions, any accrued entitlement on the securities or instruments held by the fund may be excluded. The entitlement should not be exercised if the exercise results in a breach of any limit or restriction.
- 6.46 Although the limits and restrictions under Schedule B of these Guidelines apply only on a per fund basis, the fund manager is encouraged to have prudential internal limits and restrictions on a group-of-funds basis if the funds are operated by the same management company.

Breach of investment limits

- 6.47 The management company must notify the SC, within seven business days, of any breach of investment limits and restrictions in this Chapter with the steps taken to rectify and prevent such breach from recurring.
- 6.48 Notwithstanding paragraph 6.47, any breach as a result of any –
 - (a) appreciation or depreciation in value of the fund's investments;

- (b) repurchase of units or payment made out of the fund;
- (c) change in capital of a corporation in which the fund has invested in; or
- (d) downgrade in or cessation of a credit rating,

need not be reported to the SC but must be rectified as soon as practicable within three months from the date of the breach unless otherwise specified in these Guidelines.

- 6.49 Notwithstanding paragraph 6.48, the three-month period may be extended if it is in the best interest of unit holders and trustee's consent is obtained. Such extension must be subject to at least a monthly review by the trustee.

Voting rights

- 6.50 The fund manager or the trustee is encouraged to exercise the voting rights for any share held by the fund at a shareholder meeting of corporations whose shares are so held.

Chapter 6 – Appendix I

EXPOSURE TO DERIVATIVES

PART 1: CALCULATION OF GLOBAL EXPOSURE TO DERIVATIVES AND EMBEDDED DERIVATIVES

- (1) For the purpose of this Appendix, any reference to 'high quality' means the highest long-term credit rating of the issuer.

Commitment approach

- (2) The global exposure of the fund is calculated as the sum of the –
 - (a) absolute value of the exposure of each individual derivative not involved in netting or hedging arrangements;
 - (b) absolute value of the net exposure of each individual derivative after netting or hedging arrangements; and
 - (c) the values of cash collateral received pursuant to–
 - (i) the reduction of exposure to counterparties of OTC derivatives; and
 - (ii) efficient portfolio management techniques relating to securities lending and repurchase transactions.

Netting arrangements

- (3) Netting arrangements may be taken into account to reduce a fund's exposure to derivatives.
- (4) A fund may net positions between–
 - (a) derivatives on the same underlying constituents, even if the maturity dates are different; or
 - (b) derivatives and the same corresponding underlying constituents, if those underlying constituents are transferable securities, money market instruments, or units or shares in CIS.

Hedging arrangements

- (5) Hedging arrangements may be taken into account to reduce a fund's exposure to derivatives.
- (6) The marked-to-market value of transferable securities, money market instruments, or units or shares in CIS involved in hedging arrangements may be taken into account to reduce the exposure of a fund to derivatives.
- (7) The hedging arrangement must–
 - (a) not be aimed at generating a return;
 - (b) result in an overall verifiable reduction of the risk of the fund;
 - (c) offset the general and specific risks linked to the underlying constituent being hedged;

- (d) relate to the same asset class being hedged; and
- (e) be able to meet its hedging objective in all market conditions.

PART 2: CALCULATION OF EXPOSURE TO COUNTERPARTY OF OTC DERIVATIVES

- (8) The exposure to a counterparty of an OTC derivative must be measured based on the maximum potential loss that may be incurred by the fund if the counterparty defaults and not on the basis of the notional value of the OTC derivative.
- (9) The total exposure to a single counterparty is calculated by summing the exposure arising from all OTC derivative transactions entered into with the same counterparty.

Collateral

- (10) The exposure to a single counterparty pursuant to paragraph 6.24(b) may be construed as being lowered if the fund receives collateral from such counterparty, provided that the collateral complies with the following:
 - (a) It can only consist of cash, debt securities, or money market instruments, that are subject to the investment restrictions and limits, on a portfolio basis, as prescribed under Schedule B of these Guidelines;
 - (b) It is marked-to-market daily by using independent pricing source;
 - (c) It must be sufficiently liquid and tradable in order that it can be sold quickly at a robust price that is close to

pre-sale valuation. Collateral should normally trade in a deep and liquid marketplace with transparent pricing;

- (d) It must be of high quality and must be replaced immediately as soon as the credit quality of the collateral or the issuer of the asset being used as collateral has deteriorated to such a degree that it undermines the effectiveness of the collateral;
- (e) Its value must not have any significant correlation with the creditworthiness of the counterparty in such a way that would undermine the effectiveness of the collateral;
- (f) It is not issued by the counterparty or any of its related corporation;
- (g) It must be held by the trustee in a trust account for the fund;
- (h) It must be subject to prudent haircut policy;
- (i) It must be readily accessible or enforceable by the trustee of the fund without further recourse to the issuer of the derivatives;
- (j) It is free from all prior encumbrances; and
- (k) Bonds, sukuk and other forms of securitised debt, and money market instruments, with embedded derivatives are not eligible as collateral.

Re-investment of collateral

- (11) Collateral obtained in the form of cash by the fund may only be reinvested in short-term deposits and high quality money market instruments, and subject to corresponding investment restrictions and limits applicable to such investments, on a portfolio basis, as prescribed under Schedule B of these Guidelines.
- (12) Non-cash collateral received may not be sold, reinvested or pledged.

Management of operational and legal risks

- (13) The management company or the fund manager must have appropriate systems, operational capabilities and legal expertise for proper collateral management.

Chapter 6 – Appendix II

SECURITIES LENDING AND REPURCHASE TRANSACTIONS

- (1) For the purpose of this Appendix, any reference to 'high quality' means the top three long-term credit rating of the issuer (including gradation and subcategories).

Collateral: General

- (2) The collateral provided to the fund for securities lending and repurchase transactions must comply with the following:
- (a) It can only consist of cash, debt securities, or money market instruments, that are subject to the investment restrictions and limits, on a portfolio basis, as prescribed under Schedule B of these Guidelines;
 - (b) It is marked-to-market daily by using independent pricing source;
 - (c) It must be sufficiently liquid and tradable in order that it can be sold quickly at a robust price that is close to pre-sale valuation. Collateral should normally trade in a deep and liquid marketplace with transparent pricing;
 - (d) It must be of high quality and must be replaced immediately as soon as the credit quality of the collateral or the issuer of the asset being used as collateral has deteriorated to such a degree that it undermine the effectiveness of the collateral;

- (e) Its value must not have any significant correlation with the creditworthiness of the counterparty in such a way that would undermine the effectiveness of the collateral;
- (f) It is not issued by the counterparty or any of its related corporation;
- (g) It must be—
 - (i) held by the trustee or an agent; and
 - (ii) legally secured from the consequences of the failure of the trustee, counterparty or agent;
- (h) It must be subject to prudent haircut policy;
- (i) It must be readily accessible or enforceable by the trustee of the fund without further recourse to the counterparty of the securities lending and repurchase transactions;
- (j) It is free from all prior encumbrances; and
- (k) Bonds, sukuk and other forms of securitised debt, and money market instruments, with embedded derivatives are not eligible as collateral.

Collateral: Securities lending through a standardised lending system

- (3) For securities lending through a standardised lending system, the collateral may, in addition to instruments specified in paragraph (2)(a), consist of equity securities as approved or prescribed by the clearing house, provided that the equity securities–
 - (a) comply with the requirements specified in paragraphs (2)(b), (c), (e), (f), (g), (h), (i) and (j); and
 - (b) equity securities with embedded derivatives are not eligible as collateral.

Re-investment of collateral

- (4) Collateral obtained in the form of cash by the fund may only be reinvested in short-term deposits and high quality money market instruments, and subject to corresponding investment restrictions and limits applicable to such investments, on a portfolio basis, as prescribed under Schedule B of these Guidelines.
- (5) Non-cash collateral received may not be sold, reinvested or pledged.

Management of operational and legal risks

- (6) The management company or the fund manager must have appropriate systems, operational capabilities and legal expertise for proper collateral management.

Chapter 7

CHARGES, FEES AND EXPENSES

Charges for dealing in units

- 7.01 A management company may impose a charge for the sale or repurchase of units.
- 7.02 A management company must not impose a charge unless it is—
- (a) permitted by the deed;
 - (b) expressed as a fixed amount or calculated as a percentage of the price of a unit or amount invested; and
 - (c) disclosed in the prospectus.
- 7.03 The charges must not exceed the amount or rate stated in the prospectus unless—
- (a) the management company has notified the trustee in writing of the higher charge and the effective date of the charge;
 - (b) a supplementary or replacement prospectus stating the higher charge has been registered, lodged and issued; and
 - (c) 30 days have elapsed since the effective date of the supplementary or replacement prospectus.

- 7.04 Any increase in the maximum amount or maximum rate stated in the deed can only be made by way of a supplementary deed and in accordance with the requirements of the CMSA.
- 7.05 Discounts and rebates in any form are prohibited. A management company, its sales agents and distributors must clearly inform investors the actual rate of charges payable.
- 7.06 Where applicable, for the purpose of calculating the charges, the calculation must be based on a fund's NAV per unit that has not been rounded up.
- 7.07 NAV per unit is computed based on the NAV of the fund divided by the number of units in circulation, at the valuation point. Where multiple classes of units are issued, NAV per unit is computed based on the NAV of the fund attributable to a class of units divided by the number of units in circulation for that class of units, at the valuation point.

Management fee and trustee fee

- 7.08 A management company and trustee may only be remunerated by way of an annual fee charged to the fund.
- 7.09 For the purpose of these Guidelines, management fee includes performance fee. A management company, in charging a performance fee, must comply with the following principles:
 - (a) The computation of performance fee must be equitable to all unit holders;

- (b) The frequency for crystallising the performance fee must not be more than once a year;
- (c) The method of computation must—
 - (i) be independently verifiable;
 - (ii) be measured against an appropriate benchmark that is consistent with the investment objective and strategy of a fund. If the performance fee is not measured against a benchmark, the performance fee can only be payable if the net asset value per unit exceeds the net asset value per unit on which the performance fee was last calculated and paid;
 - (iii) ensure the performance fee is only payable on the excess performance and increases or decreases proportionately with the investment performance; and
 - (iv) ensure cumulative losses are offset in some way by cumulative gains before a performance fee is payable, if the computation is not based on a fulcrum fee model; and
- (d) The use of performance fee must be clearly disclosed to unit holders, including the computation method of performance fee together with illustrations as well as its impact on the fund.

7.10 Where the method of computation for performance fees deviates from the principles set out in paragraph 7.09, the management company must demonstrate to the SC's

satisfaction that such method of computation is in the best interest of the unit holders.

- 7.11 The fees may only be charged to the fund if permitted by the deed and clearly disclosed in the prospectus.
- 7.12 The fees must be accrued daily and calculated based on the NAV of the fund. The number of days in a year must be used in calculating the accrued fees.
- 7.13 The fees must not be higher than that disclosed in the prospectus unless—
 - (a) in the case of the management fee, the management company has notified the trustee in writing of the new higher rate, and the trustee agrees after considering matters stated in paragraph 7.15;
 - (b) in the case of the trustee fee, the trustee has notified the management company in writing of the new higher rate, and the management company agrees after considering matters stated in paragraph 7.17;
 - (c) the management company has notified unit holders of the higher rate and its effective date, such effective date being at least 90 days after the date of the notice;
 - (d) a supplementary or replacement prospectus disclosing the new higher rate of fees has been registered, lodged and issued; and
 - (e) 90 days have elapsed since the date of the supplementary or replacement prospectus.

- 7.14 Any increase in the maximum rate stated in the deed may only be made by way of a supplementary deed and in accordance with the requirements of the CMSA.

Remuneration of management company

- 7.15 A management company must demonstrate, and the trustee must agree, that the management fee is reasonable, considering–
- (a) the roles, duties and responsibilities of the management company;
 - (b) the interests of unit holders;
 - (c) the nature, quality and extent of the services provided by the management company;
 - (d) the size and composition of the fund's assets;
 - (e) the success of the management company in meeting the fund's investment objective;
 - (f) the need to maximise returns to unit holders; and
 - (g) the maximum rate stipulated in the deed.
- 7.16 If at any time the trustee is of the opinion that the management fee charged to the fund is unreasonable, the trustee must take such necessary action, which may include convening a unit holders' meeting, to ensure that the fee charged is commensurate with the services provided by the management company.

Remuneration of trustee

7.17 The trustee fee must be reasonable, and takes into consideration—

- (a) the roles, duties and responsibilities of the trustee;
- (b) the interests of unit holders;
- (c) the maximum rate stipulated in the deed; and
- (d) the size and composition of the fund's assets.

Expenses of the fund

7.18 Only expenses, or part thereof, directly related and necessary in operating and administering a fund may be paid out of the fund.

7.19 General overheads and costs for services expected to be provided by the management company must not be charged to the fund. Cost of issuing a prospectus must be borne by the management company but may be charged to the fund if no sales charge is imposed.

7.20 A trustee must ensure that all expenses charged to the fund are legitimate. In addition, a trustee must ensure that the quantum of expenses charged to the fund is not excessive or beyond the standard commercial rates. Where uncertainties arise, a trustee must exercise its discretion carefully and appropriately in determining whether or not to allow the expense, or the quantum of the expense to be charged to the fund.

- 7.21 A trustee may be reimbursed by the fund for any expense appropriately incurred in the performance of its duties and responsibilities as a trustee.

Chapter 8

DEALING, VALUATION AND PRICING

Initial offer

- 8.01 The initial offer period must not exceed 21 days. However, the initial offer period may be extended up to 45 days for close-ended funds.
- 8.02 Dealing in units during the initial offer period must be at the initial price determined by the management company. Any creation or cancellation of units must also be at the initial price.

Creation and cancellation of units

- 8.03 A management company must instruct the trustee in writing to create or cancel units of the fund, and pay or receive cash to or from the trustee for the transaction.
- 8.04 A management company must pay the trustee the value of units created within 7 business days of giving instructions to the trustee to create units.
- 8.05 A trustee must pay the management company the value of units cancelled within –
- (a) 7 business days; or
 - (b) a period that is no later than the period where the management company is required to pay the unit holders the proceeds of the repurchase request as

disclosed in the fund's prospectus, pursuant to paragraph 8.19,

of receiving instructions from the management company to cancel units.

- 8.06 A trustee must create or cancel units on receipt of, and in accordance with, the instruction given by the management company and only for cash.
- 8.07 Where a request for units is received from investors, the management company must instruct the trustee to create new units at or before the next valuation point if the management company has insufficient units to meet the request.
- 8.08 A management company must not, when giving instructions to the trustee for the creation or cancellation of units, do or omit to do, anything which would confer on itself or the fund manager a benefit at the expense of a unit holder or a potential unit holder.
- 8.09 Any instruction for the creation or cancellation of units may be modified but only if the trustee agrees and has taken reasonable care to determine that—
 - (a) the modification corrects an error in the instruction; and
 - (b) the error is an isolated one.
- 8.10 Any error referred to in paragraph 8.09 must be corrected within the payment period applicable under paragraph 8.11.

- 8.11 Where the payment cannot be satisfied within 7 business days, the trustee may extend the payment period where the fund does not have sufficient cash or liquid assets and the trustee considers payment within 7 business days is not in the best interests of unit holders.
- 8.12 The creation and cancellation of units must be at NAV per unit of the fund as at the next valuation point after an instruction from the management company is received by the trustee.

Trustee may refuse to create or cancel units

- 8.13 Notwithstanding any other requirement under these Guidelines, a trustee may, by notice to the management company, refuse to—
- (a) create units;
 - (b) cancel units; or
 - (c) create or cancel units in the number instructed by the management company,

where the trustee considers the creation or cancellation is not in the best interests of unit holders or it would result in a breach of the securities laws, these Guidelines or the deed.

Dealing in units

- 8.14 A management company must agree to issue and repurchase units upon the proper request of an investor.

- 8.15 Notwithstanding paragraph 8.14, a management company has the right to repurchase all units of a unit holder in the event such repurchase is necessary to ensure that the management company is in compliance with relevant laws. The management company must provide prior notification to the unit holders of such repurchase.
- 8.16 A management company must ensure that every business day is a dealing day for the fund, and must at all times during the business day, deal in units of a fund in accordance with the deed and the prospectus unless it has reasonable grounds to refuse a sale or repurchase.
- 8.17 Notwithstanding paragraph 8.16, in the case of variable price funds, a management company must ensure that every business day is a dealing day for the fund unless the deed provides otherwise and there is sufficient disclosure that the fund may not have dealings on every business day. In any case, there must be at least one dealing day in a month.
- 8.18 A management company must—
- (a) pay the unit holder the proceeds of the repurchase of units as soon as practicable, within 7 business days of receiving the repurchase request; and
 - (b) maintain adequate arrangements to enable it to meet any repurchase request within the stated period of time.
- 8.19 A management company may extend the payment period prescribed in paragraph 8.18(a), in the following circumstances:

- (a) The fund is a feeder fund, in which case the payment to unit holders following a repurchase of units must be made within five business days from the receipt of redemption proceeds from the target fund;
- (b) The determination of the NAV per unit of the fund is subject to currency conversion due to, but not limited to, the following:
 - (i) Investments in markets outside Malaysia; or
 - (ii) The fund is a multi-class fund that offers classes of units denominated in currencies that are different from the fund's base currency,

which renders the redemption payment period within seven business days not practicable; or

- (c) A fund that utilises liquidity risk management tool,
provided that adequate disclosure has been made in the fund's prospectus on the redemption payment period.

8.20 A management company must deal in units at a price determined in accordance with paragraphs 8.39 and 8.40.

Loan financing in the sale of units

8.21 A management company must ensure that the margin of finance for loans in the sale of units does not exceed 67% of the amount invested.

8.22 Where an investor takes on loan financing, the management company must obtain a unit trust loan financing risk

disclosure statement signed by the investor acknowledging that he has understood its contents. A duplicate of the risk disclosure statement must be forwarded to the investor while the original must be filed by the management company for record and inspection purposes.

Suspension of dealing in units

- 8.23 A management company may, in consultation with the trustee and having considered the interests of unit holders, suspend dealing in units of a fund due to exceptional circumstances, where there is good and sufficient reason to do so, considering the interests of unit holders.
- 8.24 Where a suspension of dealing in units of a fund under paragraph 8.23 is triggered, the management company must ensure that all unit holders of the fund are informed in a timely and appropriate manner of the decision to suspend dealing in units of the fund.
- 8.25 A management company should cease the suspension as soon as practicable after the circumstances in paragraph 8.23 have ceased, and in any event, within 21 days of the commencement of suspension. The period of suspension may be extended if the management company satisfies the trustee that it is in the best interest of unit holders for the dealing in units to remain suspended. Such extension must be subject to weekly review by the trustee.
- 8.26 A trustee may suspend the dealing of units in a fund if the trustee, on its own accord, considers an event under paragraph 8.23 has been triggered. In such a case, the trustee must immediately call for a unit holders' meeting to decide on the next course of action.

- 8.27 A suspension of dealing in units under paragraph 8.23 can apply to one or more classes of units without being applied to other classes provided always that such suspension does not prejudice the interests of unit holders.
- 8.28 A trustee must not create or cancel units when a suspension of dealing in units of a fund is triggered.
- 8.29 A management company must immediately notify the SC in writing if dealing in units is suspended, including any extension of suspension, stating the reasons for the suspension or extended suspension, as the case may be.
- 8.30 Before resuming dealing in units after any suspension, the management company must notify the SC in writing of the proposed resumption and the date of the proposed resumption.
- 8.31 A management company may deal in units at a price calculated by reference to the first valuation point after restart of dealing in units.

Valuation and pricing

- 8.32 The price of a fund's unit must be the NAV per unit of the fund. Where a fund issues multiple classes of units, the price of a unit of any class of units must be calculated—
- (a) by reference to the NAV of the fund; and
 - (b) in accordance with the provisions of both the deed and the prospectus applying to that class of units.

- 8.33 A management company must ensure that the fund and the fund's units are correctly valued and priced on a regular basis, in line with the requirements of this Chapter and Schedule C of these Guidelines, the deed and the prospectus.
- 8.34 To determine the fund's NAV, a fair and accurate valuation of all assets and liabilities of the fund must be conducted. Valuation must be based on a process which is consistently applied and leads to objective and independently verifiable valuation.
- 8.35 Assets of a fund must be valued on a regular basis and in any event, on the days of the fund's dealing day in accordance with the deed.
- 8.36 No valuation is required during the initial offer period.
- 8.37 Upon completion of a valuation, the trustee must be immediately notified of the NAV per unit of the fund.
- 8.38 For classes of units denominated in different currencies, the price of a unit must be quoted and paid for in the currency in which those classes are denominated.
- 8.39 Any dealing in units of the fund must either be at a forward price or a historical price.
- 8.40 Where historical price is used, the management company must have an additional valuation point during the mid-day of business and re-price the units where it differs by more than 5% from the last valuation point.

- 8.41 The management company must publish the price of a fund's unit, and where applicable, the price of a unit of any class of unit, at least once on every dealing day.

Incorrect valuation or pricing

- 8.42 Where incorrect valuation or pricing occurs, a management company must–

- (a) notify the trustee; and
- (b) notify the SC, unless the trustee considers the incorrect valuation or pricing to be of minimal significance.

- 8.43 The management company must take immediate remedial action to rectify any incorrect valuation or pricing. Where the incorrect valuation or pricing is at or above the threshold of 0.5% of the NAV per unit, rectification must be extended to the reimbursement of money–

- (a) by the management company to the fund;
- (b) from the fund to the management company; or
- (c) by the management company to unit holders and former unit holders.

- 8.44 Notwithstanding paragraph 8.43, if the amount to be reimbursed to an individual account is less than Ringgit Malaysia 10.00 or in the case of a foreign currency class of unit, less than 10.00 denominated in the respective foreign currency denomination, the requirement to reimburse does not apply.

- 8.45 The management company must not pay or caused to be paid from the fund any expenses incurred as a result of correction operations of a valuation error.
- 8.46 The management company may decide the manner to reimburse unit holders, either by way of cash or additional units of the fund. In any case, the reimbursement to former unit holders must only be made by way of cash.
- 8.47 The trustee must notify the SC when the management company has completed such reimbursement satisfactorily.

Dilution fee or transaction cost

- 8.48 Where there are material costs involved in acquiring or disposing a fund's assets, a management company may–
 - (a) require the payment of a dilution fee or transaction cost; or
 - (b) make a dilution or transaction cost adjustment,provided that it is permitted by the deed and clearly disclosed in the prospectus.
- 8.49 The management company must ensure that the fee or adjustment made for dilution and transaction cost is fair and for the sole purpose of reducing dilution.
- 8.50 Where a fee is imposed, the management company must ensure that the fee becomes due at the same time payment is made for the creation, cancellation, sale or repurchase of units and such fee must be paid to the trustee as soon as practicable after receipt to become part of the fund's assets.

- 8.51 Where an adjustment is made, it may be made to the NAV per unit to reduce the dilution in the fund or to recover any amount which the fund had already paid or reasonably expects to pay in the future for the creation or cancellation of units.
- 8.52 As soon as practicable after a valuation point, the management company must notify the trustee on the amount or rate of any dilution adjustment made to the NAV per unit of the fund or any dilution fee imposed.
- 8.53 A management company must not impose a dilution fee or make a dilution adjustment for the purpose of making a profit or avoiding a loss for the account of the affected unit holder.

Chapter 9

OPERATIONAL MATTERS

Size of Funds

- 9.01 In determining the size of a fund, which must be expressed in units, a management company must take into account its resources, expertise, experience and overall capability to carry out its duties in accordance with the securities laws, these Guidelines and the deed.

Register of unit holders

- 9.02 A management company must take reasonable steps to update the register upon receiving written notice of a change of name or address of any unit holder to ensure an up-to-date register of unit holders is maintained.

Cooling-off right

- 9.03 A cooling-off right must be given to an individual investor who is investing in any unit trust fund managed by a particular management company for the first time, except for where such investor is—
- (a) A staff of that management company; or
 - (b) A person registered with a body approved by the SC to deal in unit trusts.
- 9.04 The cooling-off period must be not fewer than six business days commencing from the date of receipt of the application by the management company.

- 9.05 The refund pursuant to an exercise of a cooling-off right must be as follows:
- (a) If the original price of a unit is higher than the price of a unit at the point of exercise of the cooling-off right (market price), the market price at the point of cooling-off; or
 - (b) If the market price is higher than the original price, the original price at the point of cooling-off.
- 9.06 In addition to paragraph 9.05, the management company must also refund the charges imposed on the day the units were purchased.
- 9.07 Where the market price is higher than the original price paid by investor, the management company may agree to pay the investor the excess amount, provided that such amount is not paid out of the fund or the assets of the fund.
- 9.08 When an investor notifies the management company of his intention to exercise his cooling-off right, the management company must refund the investor in cash within seven business days of receiving such notification.

Distribution of income

- 9.09 Any distribution of income can only be made from realised gains or realised income, after taking into consideration the following:
- (a) Total returns for the period;
 - (b) Income for the period;

- (c) Cash flow for distribution;
 - (d) Stability and sustainability of distribution of income; and
 - (e) The investment objective and distribution policy of the fund.
- 9.10 Notwithstanding paragraph 9.09, a variable price fund may declare distribution out of capital of the fund, provided that–
- (a) distribution out of capital is permitted under the deed and disclosed in the prospectus; and
 - (b) the composition of distribution payments sourced from income and capital are disclosed in the fund reports, both in terms of value and percentage.
- 9.11 There must be a distribution account to which the fund's income is transferred prior to the distribution to unit holders.
- 9.12 Where a distribution is made, the management company must send to every unit holder a statement detailing the nature, whether in the form of cash or units in lieu of cash, and the amount of income distributed. The statement must also include the following information:
- (a) Total returns of the fund; and
 - (b) NAV per unit prior to, and subsequent to, the distribution.

- 9.13 For classes of units denominated in different currencies, distributions, if any, must be in the currencies in which those classes of units are denominated.
- 9.14 For interim distribution of funds, a management company may choose not to send the statement required under paragraph 9.12, if in its opinion the publication on its website is sufficient. In addition to the publication on its website, the management company may also publish the same information through an advertisement in at least one national Bahasa Malaysia newspaper and one national English newspaper.

Unit split

- 9.15 A unit split exercise may only be conducted once in any financial year of the fund.
- 9.16 A unit split exercise may only be conducted when the monthly average NAV per unit of the fund has shown a sustainable appreciation over a 6-month period preceding the unit split exercise.
- 9.17 The management company must submit the trustee's verification on compliance with paragraph 9.16 to the SC within 14 days after the unit split exercise.
- 9.18 The management company must send to every unit holder a statement detailing the ratio of the split. The statement must also include the following information:
- (a) NAV per unit prior to and subsequent to, the unit split exercise; and
 - (b) Reasons for conducting the unit split exercise.

- 9.19 The management company may choose not to send the statement required under paragraph 9.18, if in its opinion the publication on its website is sufficient. In addition to the publication on its website, the management company may also publish the same information through an advertisement in at least one national Bahasa Malaysia newspaper and one English newspaper.

Rebates and soft commissions

- 9.20 A management company, fund manager, trustee or trustee's delegate must not retain any rebate from, or otherwise share in any commission with, any broker or dealer in consideration for directing dealings in a fund's assets. Accordingly, any rebate or shared commission should be directed to the account of the fund concerned.
- 9.21 A management company or fund manager may retain goods and services (soft commissions) provided by any broker or dealer if the following conditions are met:
- (a) The soft commissions bring direct benefit or advantage to the management of the fund and may include research and advisory related services;
 - (b) Any dealing with the broker or dealer is executed on terms which are the most favourable for the fund; and
 - (c) The availability of soft commissions is not the sole or primary purpose to perform or arrange transactions with such broker or dealer, and the management company or fund manager must not enter into unnecessary trades in order to achieve a sufficient

volume of transactions to qualify for soft commissions.

- 9.22 Where paragraph 9.21 applies, the compliance officer must verify and inform the management company's board of directors or the audit and compliance committee, if any, that the goods or services received by the management company or the fund manager comply with the requirements of these Guidelines.

Documents for inspection by unit holders

- 9.23 A management company and a trustee must make available at their principal place of business the following documents for inspection by investors and unit holders at all times, without charge, during the ordinary business hours of the management company and the trustee:
- (a) The deed and the supplementary deed(s) of the fund, if any;
 - (b) The current prospectus and supplementary or replacement prospectuses of the fund, if any;
 - (c) The latest fund reports;
 - (d) Each material contract or document referred to in the prospectus;
 - (e) All reports, letters or other documents, valuations and statements by any expert, any part of which is extracted or referred to in the prospectus;
 - (f) Where applicable, the audited financial statements of the management company and the fund for the

current financial year, and for the last three financial years or if less than three years, from the date of incorporation or commencement; and

- (g) Any consent given by experts or persons named in the prospectus as having made a statement that is included in the prospectus or on which a statement in the prospectus is based.

Terminating a fund

9.24 A fund must be terminated upon the occurrence of any of the following events:

- (a) The SC's authorisation is withdrawn;
- (b) A special resolution is passed at a unit holders' meeting to terminate the fund;
- (c) The fund has reached its maturity date as specified in the deed; and
- (d) The effective date of an approved transfer scheme has resulted in the fund, which is the subject of the transfer scheme, being left with no asset.

9.25 Notwithstanding paragraph 9.24, a fund may also be terminated without a special resolution being passed at a unit holders' meeting, provided that—

- (a) such circumstance of termination is in the best interest of unit holders; and
- (b) the event of an occurrence of specific termination circumstance without a special resolution being

passed is permitted by the deed and disclosed in the prospectus.

9.26 In a termination other than as a result of an event under paragraph 9.24(d), the trustee must–

- (a) sell all the fund's assets remaining in its hands;
- (b) after paying or retaining adequate amount for all liabilities payable and cost of termination, distribute to unit holders the net cash proceeds available for the purpose of such distribution in proportion to the number of units held by the unit holders respectively; and
- (c) in relation to any monies held by the trustee that remains unclaimed after 12 months, transfer of such monies to the *Registrar of Unclaimed Moneys*, in accordance with the requirements of the *Unclaimed Moneys Act 1965*.

9.27 Where a fund is being terminated, the management company must–

- (a) issue a notice to unit holders (Termination Notice) at least 30 days before the commencement date of a fund termination (commencement date), disclosing the following:
 - (i) The last date of application for redemption of units (T-1 business day) and commencement date (T business day);
 - (ii) Rationale for termination;

- (iii) Options available to unit holders;
 - (iv) Date of expected completion;
 - (v) Where the termination costs are to be borne by the management company, a statement to this effect. Where there are termination costs to be borne by the fund, to provide the estimates of such costs;
- (b) within the period from the date of the Termination Notice until the commencement date, the fund must not accept any applications for the subscription of units;
- (c) send a notice to the SC at least 14 days (>T-14 days) before the commencement date, enclosing the following:
- (i) Termination Notice;
 - (ii) Information on the size of the fund and the number of unit holders remaining in the fund (as at the latest practicable date prior to the Termination Notice);
 - (iii) Information on the last date of sale of units; and
- (d) within the period from the commencement date until the date of completion of termination (completion date), the fund must not accept any applications for the redemption of units.

- 9.28 The management company and trustee must notify the SC in writing whereupon the passing of a resolution to terminate the fund, or upon the court confirming the unit holders' resolution to terminate the fund.
- 9.29 Where a fund is being terminated, the trustee must also arrange for the auditor of the fund to conduct a final review and audit of the fund's accounts.
- 9.30 At the completion date, the trustee must notify the SC confirming the following:
- (a) The assets of the fund have been realised and distributed to unit holders; and
 - (b) The management company has managed the fund as prescribed by the deed and relevant laws.
- 9.31 The management company or trustee must as soon as practicable after the completion date, inform unit holders of such termination.

Accounting and reports during termination

- 9.32 While a fund is being terminated –
- (a) the financial period continues to run; and
 - (b) the annual report and semi-annual report continue to be required.
- 9.33 Where for any financial period, the management company, after consulting the auditor and the trustee, has taken reasonable care to determine that timely production of an annual or a semi-annual report is not required in the

interests of unit holders, the immediate production of the report may be dispensed with.

- 9.34 The financial period in paragraph 9.33 must be reported together with the following period in the next report prepared for the purpose of paragraph 9.35. In such instance, the management company must notify the SC of the change to the timing of issuance of the annual report or semi-annual report, and the expected date of issuance of such report.
- 9.35 At the date of completion of the fund termination, the financial period then running is regarded as the final financial period for the fund. Within two months after the end of the financial period, the final report of the fund must be published and sent to each unit holder and the SC.

Termination a class of units

- 9.36 A class of units may be terminated if a special resolution is passed at a meeting of unit holders of that class of units to terminate the class provided always that such termination does not prejudice the interests of any other class of units.
- 9.37 The management company or trustee must as soon as practicable after the termination of a class of units inform all unit holders of the fund of the termination of the class of units.
- 9.38 The management company and trustee must notify the SC in writing –
- (a) upon passing of a resolution to terminate a class of units; and

- (b) upon the completion of the termination of a class of units.

9.39 Where a class of units is being terminated, the trustee must also arrange for the auditor of the fund to conduct a final review and audit of the fund's accounts in relation to that class of units.

9.40 For avoidance of doubt, where appropriate, the requirements in paragraphs 9.25 to 9.35 apply to the termination of a class of units.

Transfer Schemes

9.41 A transfer scheme is an agreement to transfer the assets of the fund from a fund (transferor fund) to another fund (transferee fund).

9.42 A management company must ensure that the unit holders of the transferor fund do not become unit holders of a fund other than a fund authorised by the SC.

9.43 A transfer scheme must not be implemented without the sanction of special resolution of unit holders of both the transferor and transferee funds.

9.44 If the management company and trustee or other persons providing oversight functions for the transferee fund or the auditor of the transferee fund agree that the receipt of the assets concerned for the account of the transferee fund –

- (a) is not likely to result in any material prejudice to the interest of unit holders of the transferee fund;

- (b) is consistent with the investment objective of the transferee fund; and
- (c) could be effected without any breach of Chapter 6 of these Guidelines;

then, the transfer scheme may be implemented and the issue of units in exchange for the transferor fund's assets may be undertaken.

Meeting of unit holders

9.45 A management company or trustee may convene a unit holders' meeting at any time, other than for the required circumstances provided for in the CMSA.

Notice of meetings

9.46 Except where specifically provided for in the CMSA, when a management company or trustee convenes a unit holders' meeting, it must—

- (a) give at least 14 days' written notice to unit holders; and
- (b) specify in the notice, the place, time and terms of the resolutions to be proposed.

9.47 A copy of the notice of any unit holders' meeting, including those convened under section 305 of the CMSA, must be provided to the SC and the trustee.

Chairman

9.48 A unit holders' meeting must be chaired by—

- (a) where the meeting is requested by the unit holders or trustee, a person appointed on their behalf by unit holders who are present at the meeting or where no such appointment is made, by a nominee of the trustee; or
- (b) where the meeting is called by the management company, a person appointed by the management company.

Quorum

- 9.49 The quorum required for a meeting is five unit holders, whether present in person or by proxy, provided always that the quorum for a meeting which requires a special resolution is five unit holders holding in aggregate at least 25% of the units in issue at the time of the meeting.
- 9.50 In the case of a fund or class of units having five or less unit holders, the quorum required for a meeting is two unit holders, whether present in person or by proxy, provided always that the quorum for a meeting which requires a special resolution is two unit holders holding in aggregate at least 25% of the units in issue at the time of the meeting.
- 9.51 In the case of a fund or class of units with one remaining unit holder, such unit holder, whether present in person or by proxy, at the meeting shall constitute as quorum.
- 9.52 If after a reasonable time from the start of the meeting, a quorum is not present, the meeting –
- (a) if convened on the request of the unit holders, must be dissolved; and

- (b) in any other case, must stand adjourned to –
 - (i) a day and time which is seven or more days after the day and time of the meeting; and
 - (ii) a place appointed by the chairman.

9.53 A management company must send a notice of an adjourned meeting to unit holders stating that notwithstanding the requirement in paragraphs 9.49 and 9.50, whatever the number of unit holders or number of units held, as the case may be, present in person or by proxy at the adjourned meeting will form a quorum after a reasonable time has passed from the convening of the meeting.

Resolutions

9.54 Except where a special resolution is specifically required or permitted, any resolution is passed by a simple majority.

9.55 A resolution passed at a meeting of unit holders binds all unit holders, whether or not they were present at the meeting. No objection may be made as to any vote cast unless such objection is made at the meeting.

9.56 A copy of the resolution must be provided by the management company to the SC and the trustee.

Voting rights

9.57 On a voting by show of hands, every unit holder who is present in person or by proxy has one vote.

- 9.58 A poll voting may be demanded on any resolution. On a voting by poll –
- (a) votes may be given either personally or by proxy; and
 - (b) the votes by every unit holder, who is present in person or by proxy, shall be proportionate to the number or to the value of units held by him.
- 9.59 In the case of joint unit holders, any one of such joint unit holders may vote either personally or by proxy, but if the joint unit holders are present at the meeting either personally or by proxy, only the vote of the first named in the register of unit holders can be taken.
- 9.60 A management company must not exercise the voting rights for the units it or its nominees hold in any unit holders' meeting, regardless of the party who requested for the meeting and the matters that are laid before the meeting.
- 9.61 Related parties who have interest in the outcome of the transaction tabled for approval and that interest is different from the interests of other unit holders, must not vote or be counted in the quorum at a meeting.

Right to demand poll voting

- 9.62 A resolution put to the vote at a unit holders' meeting must be determined by a show of hands unless a poll voting is demanded, before or immediately after any question is put to the show of hands, by –
- (a) the chairman;

- (b) the trustee;
- (c) the management company; or
- (d) unit holders present, or represented by proxy, who hold between them not less than one-tenth of the total number of units in issue.

9.63 Unless a poll voting is demanded, a declaration by the chairman as to the result of the resolution is conclusive evidence of the fact.

Proxies

9.64 A unit holder may appoint another person to attend a unit holders' meeting and vote in the unit holders' place.

9.65 Every notice calling for a unit holders' meeting must contain a statement that a unit holder is entitled to attend and vote, or may appoint a proxy.

9.66 The document appointing a proxy must be deposited at the office of the management company not less than 48 hours before the meeting or adjourned meeting.

Adjournment and minutes

9.67 The chairman –

- (a) may, with the consent of any meeting of unit holders at which a quorum is present; and
- (b) if so directed by the meeting,
adjourn the meeting.

9.68 A management company must ensure that –

- (a) minutes of all resolutions and proceedings at every unit holders' meeting are made and kept; and
- (b) any minute made in paragraph 9.68(a) is signed by the chairman of the unit holders' meeting.

Notification to unit holders

9.69 A management company must inform unit holders of any change made to the fund.

9.70 For the purpose of section 295(4) of the CMSA, the management company or trustee must convene a unit holders' meeting to obtain unit holders' approval where the interests of the unit holders may be materially prejudiced by any changes to the deed.

9.71 Where there is a change to the prospectus, the management company is required to undertake the following:

- (a) For a significant change which may affect the unit holders' decision to stay invested in the fund, the management company must give a written notice to unit holders, informing them–
 - (i) that a supplementary or replacement prospectus will be or has been registered by the SC;
 - (ii) of the significant change to the fund, highlighting the current and revised positions; and

- (iii) of the effective date of the significant change.
- (b) For any change other than a significant change under paragraph 9.71(a), the management company must notify unit holders via a semi-annual or an annual report, whichever is earlier, of the—
 - (i) change made to the fund, highlighting the current and revised positions; and
 - (ii) effective date of the change.

9.72 In relation to paragraph 9.71(a)(iii), the effective date of the significant change must not be less than 14 days from the date of such notice.

9.73 In relation to the obligation of a management company towards a fund applicant, where a supplementary or replacement prospectus is registered due to –

- (a) a new fund being added to a master prospectus; or
- (b) a change in a fund, not being a fund invested by the fund applicant, in the master prospectus,

a management company is exempted from giving the fund applicant the right to withdraw pursuant to the SC's order which came into force on 15 August 2016 (Exemption Order) in respect of the funds that are not affected by the change.

Chapter 10

REPORTING AND AUDIT

Reporting Requirements

- 10.01 A management company must prepare an annual report and a semi-annual report of the fund to provide all necessary information to enable unit holders to evaluate the performance of the fund.
- 10.02 For a new fund, where the first financial period is less than 12 months, a semi-annual report need not be prepared.
- 10.03 If a management company intends to change the fund's annual or semi-annual financial period, the management company must notify the SC and the unit holders of the change, the reasons for the change and any other matters that need to be brought to the attention of unit holders.

Content of fund reports

- 10.04 An annual report of a fund must contain at least the following:
 - (a) Fund information;
 - (b) Report on fund performance;
 - (c) Manager's report;
 - (d) Trustee's report;
 - (e) Shariah adviser's report, where applicable;

- (f) Audited financial statements for the financial year; and
 - (g) Auditor's report.
- 10.05 A semi-annual report of a fund must contain at least the following:
 - (a) Fund information;
 - (b) Report on fund performance;
 - (c) Manager's report;
 - (d) Trustee's report;
 - (e) Shariah adviser's semi-annual review report, where applicable; and
 - (f) Financial statements for the semi-annual financial period.
- 10.06 The minimum and detailed information to be included in the fund's reports is set out in Schedule E of these Guidelines.
- 10.06A Notwithstanding paragraph 10.06, the minimum content of the Shariah adviser's report for purpose of paragraphs 10.04(e) and 10.05(e) is set out in Chapter 30 of the *Guidelines on Islamic Capital Market Products and Services*.

Publication of reports

10.07 A management company must–

- (a) prepare and publish the annual and semi-annual reports of the fund;
- (b) send the annual report without charge to unit holders;
- (c) send the semi-annual report without charge to unit holders; and
- (d) lodge the annual report with, and deliver the semi-annual report to, the SC,

within two months after the end of the financial period the report covers.

10.08 Notwithstanding paragraph 10.07(c), a management company may choose to send a short semi-annual report to unit holders.

10.09 A short semi-annual report must contain at least the following:

- (a) Report on fund performance;
- (b) Manager's report; and
- (c) A statement that the semi-annual report is available upon request and without charge to unit holders, where such statement is in bold font and displayed in a prominent position.

Audit

- 10.10 A management company and trustee must ensure that the financial statements of the fund are audited annually.
- 10.11 Where the SC is of the opinion that the auditor appointed by the trustee is not suitable, or where an auditor has not been appointed, the SC may direct the trustee to replace or appoint an auditor to the fund in accordance with the requirements of this Chapter.
- 10.12 A trustee may, from time to time, if it deems appropriate, remove the auditor of the fund and appoint another in its place. In addition, unit holders may by way of an ordinary resolution request the trustee to replace the auditor.

Co-operation with Auditors

- 10.13 A management company must take reasonable steps to ensure that its employees–
- (a) provide such assistance as the auditor reasonably requires to discharge its duties;
 - (b) give the auditor right of access at all reasonable times to relevant records and information;
 - (c) do not interfere with the auditor's ability to discharge its duties;
 - (d) do not provide false or misleading information to the auditor; and
 - (e) report to the auditor any matter which may significantly affect the financial position of the fund.

- 10.14 A management company must, in writing, require a fund manager to co-operate with the fund's auditor in accordance with the requirements specified in paragraph 10.13.

Chapter 11

APPLICATIONS, NOTIFICATIONS AND REPORTING TO THE SECURITIES COMMISSION MALAYSIA

Application for the SC's authorisation or approval

- 11.01 The SC provides for two authorisation processes for the establishment of a unit trust fund as follows:
- (a) Standard authorisation process; and
 - (b) Expedited authorisation process.
- 11.02 A fund that would be subject to the standard authorisation process includes:
- (a) A feeder fund;
 - (b) A fund-of-funds;
 - (c) A fund that –
 - (i) can invest in derivatives other than for hedging purposes;
 - (ii) can invest in warrants and convertibles other than those which are capable of being converted into new shares;
 - (iii) can invest in transferable securities or money market instruments with embedded derivatives;

- (iv) can invest in other securities as described in chapter 6 of these Guidelines;
 - (v) does not provide daily dealing;
 - (vi) is permitted to undertake securities lending or repurchase transaction; or
 - (d) a cross-border fund, which is a fund that can be offered in a foreign jurisdiction under an arrangement between the SC and the securities regulator in that foreign jurisdiction.
- 11.03 A fund other than those specified in paragraph 11.02, would be considered under the expedited authorisation process.
- 11.04 Notwithstanding paragraph 11.03, the SC reserves the right to determine the eligibility of a fund to be considered under the expedited authorisation process.
- 11.05 For application under paragraph 1.06, in relation to a fund considered under the expedited authorisation process, the management company must first submit such application and procure the SC's decision prior to submitting an application for authorisation of the fund, unless specific clearance from the SC has been obtained otherwise.
- 11.06 All information, documents and notifications submitted to the SC must be true, complete and accurate. These information and documents must be in accordance with the requirements stipulated under this Chapter.

- 11.07 An application under the expedited authorisation process will lapse if an authorisation is not granted by the SC within six months from the date of first submission. The SC, at its sole discretion, may extend this period under limited circumstances.
- 11.08 When an application under the expedited authorisation process has lapsed, and the management company wishes to seek authorisation for the same fund again, the management company shall submit a fresh application together with the necessary fees.

Application for extension of time

- 11.09 An application for an extension of time must be submitted to the SC at least 30 days before the stipulated expiry date.
- 11.10 Where an application is submitted less than 30 days before the expiry date, the SC will not be responsible for any delay in considering the application.

Application to be a Qualifying CIS

- 11.11 A fund seeking to be assessed as suitable to be a Qualifying CIS must submit an application to the SC.

Application to register and lodge documents with SC

Deed

- 11.12 A deed of a fund must be submitted for registration and lodgement according to the requirements under these Guidelines.

- 11.13 The SC will not register a deed unless the submission is complete and accompanied by all required materials and documents. The SC reserves the right to refuse registration and return the application if the contents of the deed are inadequate and unsuitable, or if the submission is incomplete, as the case may be.
- 11.14 An application to register a deed of a fund must be submitted together with the application to establish a new unit trust fund.
- 11.15 The lodgement file must be submitted together with the registration file (the lodgement and registration file must be in separate folders).

Prospectus

- 11.16 An application to register and lodge a fund's prospectus must be made in accordance with the requirements set out in *Prospectus Guidelines for Collective Investment Schemes*.

Submission of documents prior to the application to establish a feeder fund

- 11.17 Prior to a management company submitting an application for authorisation of a feeder fund, the management company must submit to the SC a documentation on the following:
 - (a) The policy and procedures on how the management company selects its target fund (referred to as

'Target Fund Selection Process'), for SC's clearance;
and

- (b) The risk management policy and procedures of the feeder fund (referred to as 'Feeder Fund Risk Management Process'), which is comprehensive in managing all risks related to the feeder fund and its investment in the target fund.

11.18 Where any document is amended after the submission pursuant to paragraph 11.17, a management company must submit to the SC the marked-up copies, including deletions of information, together with the corresponding electronic copy.

Documents and notifications required to be submitted to the SC

11.19 A management company must submit the following to the SC:

- (a) The annual report of the fund;
- (b) The semi-annual report of the fund;
- (c) Notice issued or published after the registration of a prospectus;
- (d) Statistical Return and Compliance Return;
- (e) [Deleted];

- (f) Appointment of a fund manager to perform fund management function for the management company;
- (g) A special resolution passed to terminate a fund or a class of units and where applicable, a court order confirming the same; and
- (h) Commencement and completion of the termination of a fund.

Submission of applications, notifications or documents to the SC

- 11.20 All submissions to the SC, unless otherwise specified in these Guidelines, must be made in accordance with, and accompanied by documents, as specified on the SC's website.
- 11.21 Submission of applications which do not comply with the requirements or which are unsatisfactory will be returned.
- 11.22 The SC must be immediately informed of –
 - (a) any material change in circumstances that would affect the SC's consideration of the application; and/or
 - (b) any material change or development in circumstances relating to the application, occurring subsequent to the SC's approval or authorisation.

Launching of fund

11.23 A management company must launch its fund as follows:

- (a) Where a fund is subjected to the standard authorisation process, within 12 months from the date of authorisation.
- (b) Where a fund is subjected to the expedited authorisation process, within six months from the date of authorisation.

Chapter 12

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Schedule A

INFORMATION REQUIRED TO BE INCLUDED ON THE MANAGEMENT COMPANY'S WEBSITE

- (1) Information on the fund, including:
 - (a) Prospectus and product highlight sheet;
 - (b) Circulars, notices, fact sheets and announcements;
 - (c) Fund reports;
 - (d) Latest NAV per unit of the funds;
 - (e) Distributions declared, including the composition of distribution (income and capital) in percentage forms;
- (2) Information on key personnel such as the chief executive officer and designated person responsible for compliance matters;
- (3) Summary of the management company's financial position for the past three years, where applicable, in tabular form, disclosing—
 - (a) paid-up share capital;
 - (b) shareholders' funds;
 - (c) revenue;
 - (d) profit or loss before tax; and
 - (e) profit or loss after tax;

- (4) Total number of funds as well total value of funds operated by the management company;
- (5) Where the fund management function is undertaken by an external fund manager, a brief corporate information of the external fund manager and total value of funds under the fund manager's management;
- (6) If the management company outsources any function to an external party, a brief corporate information of the service provider or sub- contractor and the roles and duties of the service provider or sub- contractor;
- (7) Where a Shariah adviser is appointed, the relevant qualifications of each of the Shariah adviser. Where the Shariah adviser is a company–
 - (a) the corporate information of the company;
 - (b) the number of funds in which it acts as adviser; and
 - (c) the relevant qualifications of the designated person responsible for Shariah matters of the fund.

Schedule B

INVESTMENT RESTRICTIONS AND LIMITS – CORE REQUIREMENTS

General

- (1) The requirements herein apply to all funds, unless otherwise specified in the respective appendices of this schedule.
- (2) The investment limits and restrictions must be read together with the general requirements and prohibitions set out in Chapter 6 of these Guidelines.

Exposure limit

- (3) The aggregate value of a fund's investments in—
 - (a) transferable securities that are not traded or dealt in or under the rules of an eligible market;
 - (b) CIS that do not comply with paragraphs 6.11(a), (b) and (c); and
 - (c) other securities,must not exceed 15% of the fund's NAV, subject to a maximum limit of 10% of the fund's NAV in a single issuer or single CIS, as the case may be.

Investment Spread Limits

- (4) The value of a fund's investments in ordinary shares issued by any single issuer must not exceed 10% of the fund's NAV.
- (5) The value of a fund's investments in –
 - (a) transferable securities; and
 - (b) money market instruments,issued by any single issuer must not exceed 15% of the fund's NAV (single issuer limit). In determining the single issuer limit, the value of the fund's investments in instruments in paragraph (3) issued by the same issuer must be included in the calculation.
- (6) The value of a fund's placement in deposits with any single financial institution must not exceed 20% of the fund's NAV.
- (7) The aggregate value of a fund's investments in, or exposure to, a single issuer through–
 - (a) transferable securities;
 - (b) money market instruments;
 - (c) deposits;
 - (d) underlying assets of derivatives; and
 - (e) counterparty exposure arising from the use of OTC derivatives,

must not exceed 25% of the fund's NAV (single issuer aggregate limit). In determining the single issuer aggregate limit, the value of the fund's investments in instruments in paragraph (3) issued by the same issuer must be included in the calculation.

- (8) The value of a fund's investments in units or shares of a CIS must not exceed 20% of the fund's NAV, provided that the CIS complies with—
 - (a) paragraph 6.11(a);
 - (b) paragraph 6.11(b); or
 - (c) paragraph 6.11(c), excluding a CIS that invests in real estate.
- (9) The value of a fund's investments in units or shares of a CIS that invests in real estate pursuant to paragraph 6.11(c) must not exceed 15% of the fund's NAV.
- (10) The value of a fund's investments in transferable securities and money market instruments issued by any group of companies must not exceed 20% of the fund's NAV (group limit). In determining the group limit, the value of the fund's investments in instruments in paragraph (3) issued by the issuers within the same group of companies must be included in the calculation.

Exceptions to investment spread limits

Government and other public securities or money market instruments

- (11) The single issuer limit in paragraph (5) may be raised to 35% of the fund's NAV if the issuing entity is, or the issue is guaranteed by, either a foreign government, foreign government agency, foreign central bank or supranational, that has a minimum long-term credit rating of investment grade (including gradation and subcategories) by an international rating agency.
- (12) Where the single issuer limit is increased to 35% of the fund's NAV, the single issuer aggregate limit in paragraph (7) may be raised, subject to the group limit in paragraph (10) not exceeding 35% of the fund's NAV.

Deposits

- (13) The single financial institution limit in paragraph (6) does not apply to placements of deposits arising from:
 - (a) Subscription monies received prior to the commencement of investment by the fund;
 - (b) Liquidation of investments prior to the termination or maturity of the fund, where the placement of deposits with various financial institutions would not be in the best interests of unit holders; or
 - (c) Monies held for the settlement of redemption or other payment obligations, where the placement of deposits

with various financial institutions would not be in the best interest of unit holders.

Investment concentration limits

Transferable securities

- (14) A fund's investments in shares or securities equivalent to shares must not exceed 10% of the shares or securities equivalent to shares, as the case may be, issued by a single issuer.
- (15) A fund's investments in debt securities must not exceed 20% of the debt securities issued by a single issuer. This limit may be disregarded at the time of acquisition if at that time of acquisition the gross amount of debt securities in issue cannot be determined.

Money market instruments

- (16) A fund's investments in money market instruments must not exceed 10% of the instruments issued by any single issuer. This limit does not apply to money market instruments that do not have a pre-determined issue size.

CIS

- (17) A fund's investments in CIS must not exceed 25% of the units or shares in the CIS.

Schedule B – Appendix I

MONEY MARKET FUNDS

General

- (1) A money market fund is one which invests primarily in short-term debt securities, short-term money market instruments and placement in short-term deposits.
- (2) Only funds that comply with the restrictions and limits of Schedule B and this Appendix can hold itself out as a money market fund.
- (3) This Appendix does not apply to funds which invests in debt securities and money market instruments or places deposits as part of a diversified portfolio and those whose objective is to invest in riskier and higher yielding debt securities.

Permissible investments

- (4) The fund's assets must only consist of the following:
 - (a) Debt securities;
 - (b) Money market instruments;
 - (c) Placement in deposits;
 - (d) Units or shares in other money market funds; and
 - (e) Derivatives for the sole purpose of hedging arrangements.

- (5) For the purpose of paragraph (1), a 'short-term' debt security or money market instrument must meet the following criteria:
- (a) It must meet either one of the following requirements:
 - (i) It has a legal maturity at issuance of 397 calendar days or less;
 - (ii) It has a remaining term of maturity of not more than 397 calendar days; or
 - (iii) Where a debt security or a money market instrument is issued by, or the issue is guaranteed by, either a government, government agency, central bank or supranational, the remaining maturity period must not be more than two years;
 - (b) It must be traded or dealt in under the rules of an eligible market; and
 - (c) It must not contain an embedded derivative.

Exposure limits

- (6) A money market fund must invest at least 90% of its NAV in –
- (a) short-term debt securities and short-term money market instruments; and
 - (b) placement in short-term deposits.

- (7) A money market fund may only invest up to 10% of the fund's NAV in –
 - (a) high quality debt securities which have a remaining maturity period of more than 397 days but fewer than 732 days; and
 - (b) units or shares in other money market funds and derivatives for hedging purposes.
- (8) A 'high quality' debt security is one with an issuer credit rating that has–
 - (a) minimum top two short-term rating (including gradation and subcategories); or
 - (b) minimum top three long-term rating (including gradation and subcategories),as rated by any Malaysian or global rating agency.

Investment spread limits

- (9) The value of a fund's investments in debt securities and money market instruments issued by a single issuer must not exceed 20% of the fund's NAV (single issuer limit).
- (10) The single issuer limit in paragraph (9) may be increased to 30% if the debt securities are rated by any Malaysian or global rating agency to have the highest long-term credit rating.

- (11) The value of a fund's investments in debt securities and money market instruments issued by any group of companies must not exceed 30% of the fund's NAV.

Investment Concentration Limits

- (12) A fund's investments in money market instruments must not exceed 20% of the instruments issued by any single issuer.

Repurchase transactions

- (13) Where a fund undertakes repurchase transactions for efficient portfolio management purposes, in addition to the requirements under paragraphs 6.29, 6.30, 6.32, 6.33, 6.34, 6.35, 6.36, 6.37 and 6.38, the following requirements must also be complied with:
- (a) The amount of cash received by the fund must not in aggregate exceed 10% of the fund's NAV;
 - (b) The aggregate amount of cash provided to the same counterparty in reverse repurchase agreements must not exceed 15% of the fund's NAV;
 - (c) Collateral received may only be cash, high quality money market instruments and may also include, in the case of reverse repurchase transactions, government securities receiving a favourable assessment on credit quality; and
 - (d) The holding of collateral, together with other investments of the money market fund must not contravene the requirements in this Appendix and Schedule B, where applicable.

- (14) For the purpose of paragraph (13), high quality money market instruments must have the top three long-term credit rating (including gradations and subcategories) provided by any Malaysian or global rating agency.
- (15) Where a fund or a class of units consist of a unit holder other than an individual, the management company must ensure that the fund or the class of units does not have a feature which allows the accumulation of income.

Schedule B – Appendix II

BOND OR FIXED INCOME FUNDS

PART 1: GENERAL

- (1) A bond or fixed income fund is one which invests primarily in fixed income instruments. The remaining NAV of the fund may be invested in permitted investments as prescribed in paragraph 6.05 of these Guidelines.

Investment spread limits

- (2) The value of a fund's investments in–

- (a) transferable securities; and

- (b) money market instruments,

issued by any single issuer must not exceed 20% of the fund's NAV (single issuer limit). In determining the single issuer limit, the value of the fund's investments in instruments in paragraph (3) of Schedule B by the same issuer must be included in the calculation.

- (3) For avoidance of doubt, the single issuer aggregate limit requirement in paragraph (7) of Schedule B applies to a bond or fixed income fund.
- (4) The single issuer limit in paragraph (2) may be increased to 30% if the debt security is rated by any Malaysian or global rating agency to have the highest long-term credit rating.

- (5) Where the single issuer limit is increased to 30% pursuant to paragraph (4), the single issuer aggregate limit of 25% in paragraph (7) of Schedule B may be raised to 30% of the fund's NAV.
- (6) The value of a fund's investments in transferable securities and money market instruments issued by any group of companies must not exceed 30% of the fund's NAV (group limit). In determining the group limit, the value of the fund's investments in instruments in paragraph (3) of Schedule B issued by the issuers within the same group of companies must be included in the calculation.
- (7) Where the debt securities or money market instruments are issued, or the issue is guaranteed by, either a foreign government, foreign government agency, foreign central bank or supranational, that has a minimum long-term credit rating of investment grade (including gradation and subcategories) by an international rating agency, the fund manager may apply the limits in paragraphs (11) and (12) of Schedule B.

PART 2: COUNTRY-SPECIFIC GOVERNMENT BOND OR FIXED INCOME FUNDS

- (8) A country-specific bond or fixed income fund is one which has an exposure to a single country or sovereign.
- (9) A country-specific bond or fixed income fund must invest -
 - (a) substantially all of its assets in debt securities and money market instruments where the issuer is, or the issue is guaranteed by, a foreign government, government agency, or supranational that has a

minimum long-term credit rating (Sovereign Rating) as follows:

- (i) Top two credit rating (including gradation and subcategories) provided by a rating agency; or
 - (ii) Within top three and top four credit rating (including gradation and subcategories) provided by a rating agency, subject to compliance with paragraph (10); and
 - (b) the remaining NAV of the country-specific bond or fixed income fund may comprise of the following permitted investments:
 - (i) Money market instruments that are dealt in or under the rules of an eligible market, and whose residual maturity does not exceed 12 months;
 - (ii) Placement in short-term deposits; and
 - (iii) Derivatives for the sole purpose of hedging arrangement.
- (10) Where the Sovereign Rating of the issuer or guarantor falls within the range specified in paragraph (9)(a)(ii), the country-specific government bond or fixed income fund must ensure the following are being met:
- (a) The foreign government, government agency, or supranational must be listed on the list of acceptable issuers or guarantors, which may be amended from time to time; and

- (b) The fund must invest in at least six different issues, with investment in any one issue not exceeding 30% of the fund's NAV.
- (11) A management company must ensure that any marketing communications must contain a prominent statement drawing attention to the foreign country, foreign government, government agency or supranational, the debt securities or money market instruments of which, the fund intends to invest in.
- (12) In the event of any downgrade in the Sovereign Rating, a management company must notify the SC of such event, as soon as practicable.

Schedule B – Appendix III

FUND-OF-FUNDS

General

- (1) A fund-of-funds is one which invests at least 85% of its NAV in other CIS.
- (2) A fund-of-funds may invest up to 15% of its NAV in the following permitted investments:
 - (a) Money market instruments that are dealt in or under the rules of an eligible market and whose residual maturity does not exceed 12 months;
 - (b) Placement in short-term deposits; and
 - (c) Derivatives for the sole purpose of hedging arrangements.
- (3) Only funds which comply with the restrictions and limits of Schedule B and this Appendix can hold itself out as a fund-of-funds.
- (4) A management company or the fund manager, must ensure that the investments in other CIS comply with the general requirements set out in Chapter 6 of these Guidelines under 'Investments in CIS'.
- (5) A fund-of-funds must not invest in—
 - (a) a fund-of-funds;

- (b) a feeder fund; and
 - (c) any sub-fund of an umbrella scheme which is a fund-of-funds or a feeder fund.
- (6) For a fund-of-funds that invests in a sub-fund of an umbrella scheme, the sub-fund of the umbrella scheme must be treated as if it is a separate CIS.

Investment spread limits

- (7) A fund-of-funds must invest in at least five CIS at all times.
- (8) The value of a fund's investments in units or shares of a CIS must not exceed 30% of the fund's NAV, provided that the CIS complies with –
- (a) paragraph 6.11(a);
 - (b) paragraph 6.11(b); or
 - (c) paragraph 6.11(c), excluding CIS that invests in real estate.

Schedule B – Appendix IV

FEEDER FUNDS

General

- (1) A feeder fund is one which invests at least 85% of its NAV in units or shares of a single CIS, provided that the CIS complies with –
 - (a) paragraph 6.11(a);
 - (b) paragraph 6.11(b); or
 - (c) paragraph 6.11(c), excluding CIS that invests in real estate.
- (2) A feeder fund may invest up to 15% of its NAV in the following permitted investments:
 - (a) Money market instruments that are dealt in or under the rules of an eligible market, and whose residual maturity does not exceed 12 months;
 - (b) Placement in short-term deposits; and
 - (c) Derivatives for the sole purpose of hedging arrangement.
- (3) Only funds which comply with the restrictions and limits of Schedule B and this Appendix can hold itself out as a feeder fund. For the avoidance of doubt, a feeder fund will not be subjected to the investment concentration limit in paragraph (17) of Schedule B of these Guidelines.

- (4) A management company or the fund manager, must ensure that–
 - (a) investments in the other CIS comply with the general requirements set out in Chapter 6 of these Guidelines; and
 - (b) the CIS is managed by another management company or a foreign operator, unless the CIS is an ETF.
- (5) 'Foreign operator' in paragraph (4)(b) means a foreign-incorporated entity responsible for the management of assets held for or within a CIS, or who otherwise operates a CIS, and on whose behalf issue and offer units/shares of the CIS.
- (6) A feeder fund must not invest in–
 - (a) a fund-of-funds;
 - (b) a feeder fund; and
 - (c) any sub-fund of an umbrella scheme which is a fund-of-funds or a feeder fund.
- (7) Where a feeder fund is investing in an ETF, the prospectus of the feeder fund must contain disclosure on the difference between the feeder fund structure and direct investment in the ETF, with particular attention to the fee structure and real-time trading.
- (8) For a feeder fund that invests in a sub-fund of an umbrella scheme, the sub-fund of the umbrella scheme must be treated as if it is a separate CIS.

Schedule B – Appendix V

INDEX FUNDS

General

- (1) An index fund is a fund whose principal objective is to track, replicate or correspond to an index on permissible investments, with an aim of providing or achieving investment results or returns that closely match or correspond to the performance of the index.

Name of fund

- (2) The name of the fund must reflect the nature of an index fund. The words 'index', 'tracking' or 'tracker', must appear in the name of the fund, where appropriate.

Index tracking strategies

- (3) An index fund may seek to track an index by any of the following strategies:
 - (a) Full replication by investing all or substantially all of its assets in the constituents of the underlying index, broadly in proportion to the respective weightings of the constituents in the index;
 - (b) Optimisation approach by investing in a portfolio featuring high correlation to the index to minimise index tracking error;

- (c) Sampling approach by stratifying or dividing an index into manageable risk elements or buckets to replicate the underlying index performance; or
 - (d) Synthetic replication through the use of derivatives or embedded derivatives to replicate the index performance.
- (4) For the optimisation and sampling approaches where certain investments of the fund are not constituents of the index, such approaches may be used only if the resultant fund characteristics closely match or correspond to the characteristics of the index.

Acceptable indices

- (5) The underlying index must–
- (a) have–
 - (i) a clearly defined objective; or
 - (ii) a clear market or sector it aims to represent;
 - (b) be objectively calculated and rules-based;
 - (c) be diversified such that the maximum weight per constituent does not exceed 20% of the index. Where an index is composed solely of constituents which are non-shares, the maximum weightage of only one constituent may be increased to but not exceeding 35% of the index;
 - (d) contain constituents that are sufficiently liquid;

- (e) be transparent and easily accessible by investors; and
- (f) be constructed, maintained and reviewed by a reputable third party index provider.

Schedule B – Appendix VI

UMBRELLA FUND

General

- (1) An umbrella fund is one which comprises at least two sub-funds.
- (2) An umbrella fund must provide favourable switching facilities between its sub-funds, compared with switching facility involving other funds under the same management company.
- (3) A sub-fund's assets must not consist of units or shares of another sub-fund within the same umbrella fund.

Investment Restrictions

- (4) Each sub-fund of an umbrella fund is subject to the investment restrictions and spread limits within which it is categorised under, and will be treated as a single fund.
- (5) Notwithstanding paragraph (4), the investment concentration limits will apply at the level of the umbrella fund.

Schedule B – Appendix VII

GUARANTEED FUND

General

- (1) A guaranteed fund is one which guarantees investors will get back the capital invested, with some returns, if any, or guarantees investors a certain investment return payable at a pre-determined date in the future.
- (2) The word 'guarantee' must appear in the fund's name. Where a fund does not comply with the requirements in this Appendix, it must not use the word 'guarantee', or any other name which may imply some form of guarantee, in its name or in its promotional materials. Such a fund is prohibited from holding itself out as a guaranteed fund.

Guarantor

- (3) A guarantor must be appointed to provide a guarantee for the fund.
- (4) A guarantor must be a licensed bank, licensed investment bank or a licensed Islamic bank.
- (5) A guarantor must have a minimum of top three long-term credit rating (including gradation and subcategories) provided by any Malaysian or global rating agency.
- (6) Where a guarantor's rating falls below the minimum required under paragraph (5), or the guarantor ceases to be rated, the management company must, within six months or sooner, and if the trustee considers it to be in the best

interest of unit holders, enter into a new agreement with a new guarantor that satisfies paragraphs (4) and (5).

Guarantee

- (7) The trustee must enter into a written agreement with the guarantor and must ensure there is a guarantee at all times.
- (8) The guarantee must be legally enforceable against the guarantor by the trustee, on behalf of unit holders.
- (9) For a capital guaranteed fund, the guarantee must cover no less than 100% of the capital invested by a unit holder (i.e. excluding sales charge or front-end loads).
- (10) No variation or modification to the guarantee agreement is permitted, unless the trustee's consent has been obtained. Notwithstanding, where the trustee is of the opinion that the variations or modifications are material, such variations or modifications can only be made with unit holders' prior approval.
- (11) The guarantee may be terminated under the following circumstances:
 - (a) The trustee may terminate the guarantee if the guarantor is in liquidation or ceases to carry on business (excluding for the purpose of reconstruction or amalgamation);
 - (b) The trustee and guarantor may terminate the guarantee if any law is passed which renders the agreement illegal or null and void; and

- (c) The trustee and the guarantor may terminate the guarantee if the fund is terminated voluntarily.

Investment spread and concentration limits

- (12) Depending on the nature and underlying investments of the fund, the respective investment limits and restrictions prescribed in Schedule B or its relevant Appendices, whichever applicable, must apply to a guaranteed fund.

Schedule C

VALUATION

- (1) The management company must value investment instruments using the valuation basis as set out in the table below:

Investment instruments	Valuation basis
Investment instruments that are listed and quoted on an exchange	<p>The official closing price or last known transacted price on the eligible market on which the investment is quoted.</p> <p>However, if the price is not representative or not available to the market, the investments must be valued at fair value.</p>
Investment instruments not listed or quoted on an exchange	<p>(a) Fair value;</p> <p>(b) For variable-priced fund, amortised cost accounting may be used subject to the following:</p> <ul style="list-style-type: none">(i) Only permitted to be used to value money market instruments with remaining term to maturity of not more than 90 calendar days at the time of acquisition; and(ii) The management company must have in place adequate

Investment instruments	Valuation basis
	measures and safeguards to properly address relevant risks associated with the use of amortised cost accounting.

- (2) The management company must ensure that -
- (a) the fair value is determined with due care and in good faith; and
 - (b) the basis for determining the fair value of the investment is approved by the trustee (after appropriate technical consultation) and is documented.

Schedule D

DEED OF A UNIT TRUST FUND

In addition to the requirements under these Guidelines and the securities laws, the constitution of a deed for a fund must include provisions in relation to the creation of the fund or declaration of trust and contain at least the following:

- (1) Name of the fund;
- (2) Investment objective of the fund;
- (3) If the fund is a bond or fixed income fund referred to in Part 2, Schedule B – Appendix II of these Guidelines, the name of the foreign country, foreign government, government agency or supranational issuing or guaranteeing the debt securities or money market instruments;
- (4) If the fund has a limited duration, a statement to that effect;
- (5) Distribution policy, including the basis for the distribution or reinvestment of income;
- (6) Financial period of the fund;
- (7) Base currency of a fund (if classes of units are denominated in different currencies);
- (8) Unit holders' rights and extent of their liability, including their ability to take any action against the management company and trustee for any breach of their duties as set out in the CMSA, these Guidelines and the *Guidelines on the*

Registration and Conduct of Capital Market Services Providers;

- (9) The appointment of a trustee and the management company of the fund;
- (10) If classes of units are issued, a provision specifying the classes, differences between the classes and rights attached to each class;
- (11) A statement that the deed–
 - (a) is binding on each unit holder as if it had been a party to it and that it is bound by its provisions;
 - (b) authorises and requires the management company and the trustee to do things required or permitted of them by terms of the deed; and
 - (c) is made and governed under the laws of Malaysia.
- (12) Management company
 - (a) Duties of the management company which are prescribed under the CMSA and these Guidelines;
 - (b) Circumstances, procedures and processes for retirement, removal and replacement of management company;
 - (c) The extent of the indemnity provided by the management company;

(13) Trustee

- (a) Duties of the trustee which are prescribed under the CMSA and the *Guidelines on the Registration and Conduct of Capital Market Services Providers*;
- (b) Circumstances, procedures and processes for retirement, removal and replacement of trustee;

(14) Auditor

Circumstances, procedures and processes for the appointment, retirement, removal and replacement of the auditor of the fund;

(15) Investments of the fund

- (a) Permitted investments;
- (b) Limits and restrictions, including limits on borrowings or financing facilities of the fund;
- (c) Full particulars on circumstances in which, and methods by which, all or any of the investments may be varied;

(16) Valuation and pricing

- (a) Basis for the valuation and the pricing policy for the fund; and
- (b) the method of pricing and the circumstances under which it can change.

(17) Fees and expenses

- (a) Particulars of the remuneration of the management company and trustee, respectively;
- (b) Other expenses payable out of the fund; and
- (c) Any increase in the maximum rates in the deed may only be made by way of a supplementary deed and in accordance with the requirements of the CMSA:

(18) Meeting of unit holders

- (a) Circumstances under which the meetings are to be held;
- (b) Provisions on the manner in which meetings are conducted, including the manner in which votes may be given at a meeting of unit holders;

(19) Termination of a fund

- (a) Circumstances under which the fund can be terminated;
- (b) Procedures and processes for termination of the fund;

(20) Other provisions

- (a) Provisions in relation to the creation of the fund or declaration of trust, which also sets out full particulars of the trust, including precise information as to the circumstances in which the money, securities, investments and properties subject to the fund are or

will be vested in that trustee, and the duties and obligations of the trustee towards the unit holders in regard to those properties;

- (b) Provisions in relation to the creation and cancellation of units of the fund;
- (c) Full particulars on the provision to be made for investments in assets which depreciates in value, including the source from which the replacement is to be made or from which the cost of replacement is to be met. If no provision is made, a statement to that fact must be clearly stated;
- (d) Where the deed requires, or confers a right on, unit holders to enter into an agreement in connection with the unit trust fund, a provision incorporating, the terms and conditions of that agreement;
- (e) A declaration that unless the conditions of issue of any unit expressly provide that a certificate not be issued, a certificate must be issued by the trustee to a purchaser of any unit purchased or subscribed for, not more than two months after the issue of the unit;
- (f) Specific provisions whereby the management company undertakes to keep and maintain an up-to-date register of unit holders and to make that register available for inspection, free of charge, to any unit holder at any time during ordinary business hours of the management company;
- (g) Provisions in relation to circumstances under which the dealing in units can be deferred or suspended;

- (h) Provisions for the full particulars on the conditions governing the transfer of any unit to which the deed relates;
- (i) Provisions governing the modification of the deed;
- (j) A statement to the effect that the provisions in the deed shall in no way be construed as derogating from or limiting any of the requirements of the CMSA, these Guidelines and relevant laws; and
- (k) A statement to the effect that the requirements of the CMSA, these Guidelines and relevant laws shall prevail in the event any conflict or inconsistencies between provisions in the deed and the requirements of the CMSA, these Guidelines and relevant laws.

Schedule E

CONTENTS OF A FUND'S REPORT

- (1) The purpose of a fund's report is to provide information to enable unit holders to evaluate the performance of a fund.
- (2) The information required by the SC under this schedule is the minimum that must be included in a fund's report.
- (3) A fund's report need not adopt the terms used under this schedule. Where possible, the report must avoid unnecessary jargon and use terms which are easily understood by unit holders.
- (4) For umbrella funds, a report must be prepared for each sub-fund.
- (5) For a fund with multiple classes of units, that fund's report must contain information with respect to each class of units in issue.

Fund Information

- (6) This section must disclose the following information:
 - (a) Name, type and category of the fund;
 - (b) The fund's investment objective;
 - (c) Duration of the fund and its termination date, where applicable;
 - (d) The fund's performance benchmark; and
 - (e) The fund's distribution policy.

Fund Performance

(7) The following information must be disclosed in this section:

- (a) A comparative table covering the last three financial years, or since inception if shorter, showing for the end of each financial year—
 - (i) portfolio composition of the fund, e.g. distribution among industry sectors, markets and category of investments;
 - (ii) NAV of the fund;
 - (iii) NAV per unit and the number of units in circulation as at the end of each year;
 - (iv) highest and lowest NAV per unit;
 - (v) total return of the fund, and the breakdown into capital growth and income distribution;
 - (vi) distribution per unit (gross and net) for interim and final distribution, if any, and any other forms of distribution made and proposed during the period. The date of each distribution and the effects of the income and additional distribution in terms of NAV per unit before and after distribution must be disclosed;
 - (vii) where the distribution is made out of the fund's capital, the breakdown of distribution sourced from income and capital, in value and percentage of total distribution amount;

- (viii) total expense ratio (TER) of the fund and an explanation for the difference in TER, where applicable;
 - (ix) where performance fee is charged, the following must also be disclosed:
 - (A) the TER excluding this remuneration; and
 - (B) the TER including this remuneration;
 - (x) portfolio turnover ratio (PTR) of the fund and an explanation for the difference in PTR, where applicable;
 - (b) Average total return of the fund measured over the following periods, to the date of the report:
 - (i) one year, or since inception if shorter;
 - (ii) three years; and
 - (iii) five years; and
 - (c) Annual total return of the fund for each of the last five financial years, or since inception if shorter.
- (8) The fund's performance, it must be calculated based on a NAV-to-NAV basis with distributions reinvested at the NAV per unit.
- (9) TER can be calculated based on the ratio of the sum of fees and the recovered expenses of the unit trust fund to the average value of the unit trust fund calculated on a daily basis, i.e.

Fees of the unit trust
fund + Recovered
expenses of the unit
trust fund X 100

Average value of the
unit trust fund
calculated on a daily
basis

Where:

Fees = All ongoing fees deducted/deductible directly from the unit trust fund in respect of the period covered by the management expense ratio expressed as a fixed amount, calculated on a daily basis. This would include the annual management fee, the annual trustee fee and any other fees deducted/deductible directly from the unit trust fund;

Recovered = All expenses recovered from/ charged to the unit trust fund, as a result of the expenses incurred by the operation of the unit trust fund, expressed as a fixed amount. This must not include expenses that would otherwise be incurred by an individual investor (e.g. brokerage, taxes and levies); and

Average value of the unit trust fund = The NAV of the unit trust fund, including unit trust net income value of the fund, less expenses on an accrued basis, in respect of the period covered by the management expense ratio, calculated on a daily basis.

- (10) PTR can be calculated based on the ratio of the average sum of acquisitions and disposals of the unit trust fund for the year to the average value of the unit trust fund for the year calculated on a daily basis, i.e.

$$\frac{[\text{Total acquisitions of the fund for the year} + \text{Total disposals of the fund for the year}]}{2}$$

Average value of the unit trust fund for the year
calculated on a daily basis

- (11) A fund's report may include other performance data for any other period aside from those mentioned in (7) above. However, all other performance data presented must comply with the following requirements:
- (a) The bases of calculation and any assumption made must be consistently applied, adequately disclosed and independently verified; or
 - (b) The data used must be obtained from independent sources.
- (12) There must be a warning statement that past performance is not necessarily indicative of future performance and that

unit prices and investment returns may go down, as well as up.

Manager's report

- (13) A management company must prepare a report containing an operational review of the fund, the result of those operations and details of significant changes in the state of affairs of the fund during the financial period.
- (14) In selecting a format for the presentation of the report, consideration must be given, not only to the completeness and accuracy of the data, but also to the clarity of the overall presentation.
- (15) A fund's report must include the following:
 - (a) Fund's performance in the last five financial years, or since inception if shorter, and should be illustrated in graphical form;
 - (b) Where the fund has a performance benchmark, the fund's performance in (a) must also include comparison between the fund's performance and the performance of the benchmark disclosed in the prospectus;
 - (c) Description of the strategies and policies employed during the period under review. To state any change in strategy adopted which was not in line with the strategy disclosed in the prospectus;
 - (d) Where applicable, an explanation on the differences in portfolio composition between the current and previous year;

- (e) A statement on whether the fund has undertaken any securities lending or repurchase transactions (collectively referred to as '**securities financing transactions**');
- (f) A write-up of the analysis of the fund's performance based on NAV per unit adjusted for income distribution, if any, since the last review period or in the case of newly launched funds, since commencement;
- (g) Review of the markets in which the fund invests in during the period. Information on returns on investments in each market is encouraged. Focus must be given on instruments comprising major asset allocation, e.g. equity-general, equity-small cap;
- (h) Details of any unit split exercise carried out during the period. State clearly effects on NAV per unit before and after the unit split exercise;
- (i) Description and explanation of significant changes in the state of affairs of the fund during the period and up to the date of manager's report, not otherwise disclosed in the financial statements;
- (j) Details of any change in the fund's prospectus other than a significant change under paragraph 9.71(a), which include the following:
 - (i) Change made to the fund, highlighting the current and revised positions; and
 - (ii) Effective date of the change.

- (k) Circumstances which materially affect any interest of unit holders;
- (l) A statement on whether cross trade transactions have been carried out during the reported period and that the persons undertaking the oversight functions has reviewed that such transactions are in the best interest of the fund and transacted on an arm's length and fair value basis;
- (m) A statement whether any soft commission has or has not been received by the management company or fund manager for the period under review from any broker or dealer by virtue of transactions conducted for the fund. If any soft commission is received, the following must be disclosed:
 - (i) Description of the goods or services received; and
 - (ii) Manner in which the goods or services received were utilised;
- (n) Where soft commission has been received, a statement to the effect that the broker or dealer had also executed trades for other funds or investments managed by the management company or fund manager, and disclose the arrangements in such a way that unit holders of the fund are able to assess the scope of the arrangements and how the soft commissions will benefit other clients' accounts;
- (o) A confirmation that the soft commissions received were for the benefit of the fund and there was no churning of trades;

For Feeder Funds only

- (p) The target fund's top 10 holdings at market value and as a percentage of NAV as at the end of the period under review and a year ago, unless the details are not disclosed in the latest available report of the target fund;

For Index Funds only

- (q) The characteristics and general composition of the index and, where applicable, concentration in any economic sector and/or issuer; and
- (r) Comparison and explanation of the fund's performance, and the actual underlying index's performance over the relevant period.

Trustee's report

- (16) A trustee must prepare a report stating its opinion whether the management company has operated and managed the fund in accordance with the following:
 - (a) Limitations imposed on the investment powers of the management company under the deed, securities laws and these Guidelines;
 - (b) Valuation and pricing is carried out in accordance with the deed and any regulatory requirement; and
 - (c) Creation and cancellation of units are carried out in accordance with the deed and any regulatory requirement.

- (17) If the trustee is of the opinion that the management company has not done so, the trustee must disclose the shortcomings which may have an impact on the decision of existing or potential unit holders to remain invested or to invest in the fund. The trustee must also highlight steps taken to address the shortcomings and to prevent the recurrence of the shortcomings.
- (18) The report by the trustee must be prepared in the form provided in Appendix I of this Schedule;
- (19) The report prepared by a trustee must state its opinion on whether the distribution of income by the fund is appropriate and reflects the investment objective of the fund.
- (20) [Deleted]
- (21) [Deleted]

Financial statements

- (22) The financial statements must give a true and fair view of the fund, and must be prepared in accordance with applicable approved accounting standards, applicable statutory requirements, the deed and any regulatory requirement. The disclosure requirements set out for financial statements in this schedule must be complied with unless superseded by approved accounting standards.
- (23) For semi-annual report, it must be clearly stated whether the financial statements in the semi-annual report are audited or unaudited.
- (24) For the purpose of paragraph (23) where unaudited financial statements are used, the financial statements must include

a declaration by the director(s) of the management company that the financial statements give a true and fair view of the fund. A signed copy of the declaration, which must be identical to the declaration printed in the report, must be submitted to the SC.

(25) Additional Disclosure Requirements in Financial Statements

A Balance sheet

- (a) NAV of the fund;
- (b) Number of units in circulation;
- (c) NAV per unit (ex-distribution, where applicable); and
- (d) Net assets/liabilities attributable to unit holders.

B Classification of investments

- (a) Investment (including cash and cash equivalents) must not be classified as current or non-current, but must be presented in an order that reflects each category's relative liquidity; and
- (b) The carrying amount of investments, where applicable, to be categorised as follows:
 - (i) Fixed income and other debt securities;
 - (ii) Quoted and unquoted equity securities;
 - (iii) Derivatives (e.g. futures, options);
 - (iv) Other CIS;

- (v) All foreign investments;
- (vi) Any other investment, with significant items to be disclosed separately;
- (vii) Cash and cash equivalents; and
- (viii) Significant items included in other assets, disclosed separately.

C Income statement

- (a) Income, by category:
 - (i) Interest income;
 - (ii) Dividend income;
 - (iii) Net realised gains or losses on sale of investments including derivatives;
 - (iv) Net realised gain on sale of instrument in Shariah non-compliant securities (for Islamic funds);
 - (v) Dividend income from Shariah non-compliant securities (for Islamic funds); and
 - (vi) Other material income items, such as income from securities financing transactions;
- (b) Expenses, by category:
 - (i) Fees and charges paid to management company, including performance fee, with each type of fee and charge shown separately;

- (ii) Trustee's fees and any requirement of trustee's expenses, including the basis for the fees charged by the trustee;
 - (iii) Auditor's fees;
 - (iv) Tax agent's fee;
 - (v) Administrative fees and expenses;
 - (vi) Payment made to charitable bodies (for Islamic funds); and
 - (vii) Other material expenses items, such as expenses relating to securities financing transactions;
- (c) Net income before and after taxation;
 - (d) For net income after tax, the break down into 'realised' and 'unrealised' portions; and
 - (e) Total amount for distribution (net) and distribution per unit (gross and net) for the interim and final distribution, including the date for each distribution.

D Statement of Changes in NAV

Movement in the NAV of the fund during the period, separately categorising those changes arising from investment and those arising from transactions with unit holders. The following, where applicable, must be shown separately under the appropriate categories:

- (a) NAV at the beginning and end of the period;

- (b) Net income for the period;
- (c) Amounts received from units created;
- (d) Amounts paid for units cancelled;
- (e) Distributions to unit holders; and
- (f) Changes in unrealised reserves.

E Cash flow statement

F Notes to the financial statements

- (a) The basis of income recognition;
- (b) The basis for fees and charges paid to the management company;
- (c) The basis for fees and charges paid to the trustee;
- (d) Movements in the number of units created or cancelled during the period, highlighting the number of units created as additional distribution, if any;
- (e) Transactions with the top 10 brokers or dealers disclosed as follows:
 - (i) Broker or dealer transactions by value of trade and percentage; and
 - (ii) The aggregate amount of brokerage fees or commissions paid by the fund, as well as the amount of fees or commissions paid to each broker or dealer expressed in both value and percentage;

- (f) The total number and value of units held by the management company and its related parties and whether the units are held legally or beneficially;
- (g) The composition of the investment portfolio of the fund as at the date of the financial report must be disclosed. It must be grouped appropriately, based on categories (e.g. sector, market) that would facilitate a meaningful analysis. For each category, the following must be stated:
 - (i) Quantity held;
 - (ii) Cost of the investment;
 - (iii) Market value of the investment; and
 - (iv) Market value of each holding as a percentage of NAV.

A list of suspended counters, including valuation method and Shariah non-compliant securities (for Islamic funds) must be separately identified. Actions to be taken by the managers on these suspended counters must be disclosed;

- (h) Details in respect of derivatives:
 - (i) The market value of derivatives and as a percentage of the fund's NAV as at the end of the period under review;
 - (ii) The net gains or losses on derivatives realised during the period under review; and

- (iii) The net gains or losses on outstanding derivatives marked to market as at the end of the period under review;
- (i) Auditor's verification on total expense ratio and portfolio turnover ratio (applicable only for annual report); and
- (j) Additional statements on distributions are required, when—
 - (i) there are unrealised losses (be they arising during the year or period or brought forward from previous year or period) within the fund; and/or
 - (ii) distributions are made from previous year's realised gains.

Additional contents of a fund's annual or semi-annual report

(26) If applicable, a fund's annual or semi-annual report must also contain information pertaining to the following:

- (a) Derivative investments;
- (b) Securities financing transactions; and
- (c) Collateral held by the fund as a result of (a) and (b).

For avoidance of doubt, the information in paragraphs (27) and (28) does not need to be provided if, during the year or period under review, the fund had only utilised derivatives for the sole the purpose of hedging.

Information on derivative investments

(27) Details in respect of derivative investments:

- (a) The underlying assets of derivatives; and
- (b) The name of the issuers/counterparties of the derivatives.

(28) Details on global exposure arising from derivatives for the period.

Information on securities financing transactions

(29) Details in respect of securities financing transactions:

- (a) Details of the securities involved in each type of securities financing transactions;
- (b) The amount of securities on loan as a proportion of the fund's total lendable assets and of the fund's NAV;

- (c) The respective absolute amounts of each type of securities financing transactions and as a proportion of the fund's NAV;
- (d) The top 10 largest collateral issuers across all securities financing transactions with details on the amounts of collateral received by the fund;
- (e) The top 10 counterparties of each type of securities financing transactions, including name of counterparty and gross amounts of outstanding transactions;
- (f) The aggregate transaction data for each type of securities financing transactions:
 - (i) The amount (including the currency denomination);
 - (ii) Maturity tenor, including open transactions;
 - (iii) Identity and country of the counterparties;
 - (iv) Settlement and clearing means (e.g. tri-party, central counterparty, bilateral); and
 - (v) Collateral received by the fund to limit counterparty exposure with details required under paragraphs (30)(a) and (e);
- (g) Details on re-investment of cash collateral require under paragraph (30)(f); and
- (h) Details on custody/safe-keeping arrangement of collateral under paragraph (30)(g).

Information on collateral

(30) Description of holdings of collateral, including:

- (a) Nature of the collateral, including asset types and currency denomination;
- (b) Identity of counterparty providing the collateral;
- (c) Value of the fund (by percentage) secured/covered by collateral, with breakdown by asset class/nature and credit rating (if applicable);
- (d) Credit rating of the collateral (if applicable);
- (e) Maturity tenor of the collateral, including open transactions;
- (f) Data on re-investment of cash collateral:
 - (i) Share of cash collateral received that is re-invested, compared to the maximum amount specified in the prospectus; and
 - (ii) Returns from re-investment of cash collateral; and
- (g) Custody/safe-keeping arrangement, including the following:
 - (i) Number and names of custodians and the amount of collateral received/held by each of the custodian for the fund; and

- (ii) The proportion of collateral posted by the fund that are held in segregated accounts, pooled accounts, or in any other account.

Schedule E – Appendix I

TRUSTEE'S REPORT

To the unit holders of [NAME OF FUND] (Fund),

We have acted as Trustee of the Fund for the financial [period/year]* ended XX XX 20XX and we hereby confirm to the best of our knowledge, after having made all reasonable enquiries, [name of management company] has operated and managed the Fund during the [period/year]* covered by these financial statements in accordance with the following:

1. Limitations imposed on the investment powers of the management company under the deed, securities laws and the *Guidelines on Unit Trust Funds*;
2. Valuation and pricing is carried out in accordance with the deed; and
3. Any creation and cancellation of units are carried out in accordance with the deed and any regulatory requirement^{^1}

We are of the opinion that the distribution of income by the Fund [is/is not]* appropriate and [does not reflect/reflects]* the investment objective of the Fund.^{^2}

For [name of trustee]

[Name of signatory]
[Designation of signatory]

Date: [Date of report]

Notes:

^1 If the Fund has not been operated or managed according to (1), (2) or (3), to amend the confirmation to disclose the shortcoming(s) which may have an impact on the decision of existing or potential unit holders to remain invested or to invest in the Fund. The report must also state the steps taken to address the shortcoming and to prevent the recurrence of the shortcoming.

^2 To exclude this paragraph if there was no distribution during the period covered by these financial statements.

* To delete words that are not applicable.

Schedule E – Appendix II

[Deleted]

Schedule F

REPORTING TO THE SECURITIES COMMISSION MALAYSIA

General

- (1) For the purpose of reporting to the SC, a management company must submit a Statistical Return and Compliance Return (collectively referred to as 'UTF Returns') of the fund. The UTF Returns must be submitted on a monthly basis, via a system as may be specified by the SC.
- (2) The reporting period must cover the period starting from the first day until the last day of the respective month. For information required at a certain cut-off, it must be as at the last day of the month.
- (3) For a newly-established unit trust fund, the UTF Returns must commence from the month in which the fund's initial offer period ends. For example, if a fund was launched on 28 June and the initial offer period ends on 18 July, the first UTF Returns must be submitted for the month of July. In this instance, the UTF Returns will consist of data for more than one month, i.e. from 28 June to 31 July.
- (4) A management company must take all necessary precautions to ensure that the information provided in the UTF Returns is accurate.
- (5) The chief executive officer is ultimately responsible for all information submitted to the SC. The chief executive officer is expected to ensure that the necessary policies and

procedures are in place and the information submitted to the SC is true, complete and accurate.

- (6) The Compliance Return must be submitted to the trustee for verification that it is true, complete and accurate to the best of the trustee's knowledge and belief.
- (7) A management company must keep a printed copy of the UTF Returns at the business address of the management company or a designated place approved by the SC at all times for a period of seven years from the date of submission.
- (8) A management company must ensure that the particulars in the printed copy of the UTF Returns and that submitted to the SC are identical.
- (9) The SC reserves the right to conduct an examination at the business address or at the designated place to ensure compliance with paragraphs (7) and (8).

Submission of UTF Returns

- (10) The deadline for submission of UTF Returns are as follows:
 - (a) The Statistical Returns must be submitted within seven business days; and
 - (b) The Compliance Returns must be submitted within 14 business days, (by 5.00 pm on a weekday) of the month following the month of reporting.
- (11) The Compliance Returns must only be submitted to the SC after trustee's verification.

- (12) The SC considers the UTF Returns submitted via the system as final.
- (13) Should there be errors or omissions discovered after the submission has been made, the management company must immediately make the rectification and submit the amended UTF Returns to the SC.

Submission of UTF Returns during termination

- (14) While a fund is being terminated, a management company must continue to submit UTF Returns until the termination is complete.

Submission of Compliance Review Report

- (15) Where there is a notification of non-compliance upon the submission of the Compliance Returns via the system, the management company must provide an explanation for the non-compliance and the action to be taken to rectify the matter in a Compliance Review Report.
- (16) The Compliance Review Report must be submitted to the SC not later than seven business days from the date of submission of the Compliance Returns.

GUIDANCE

This Guidance provides further clarification to the requirements of these Guidelines.

GUIDANCE TO CHAPTER 2: DEFINITION

Paragraph 2.01, 'independent member': Will a person be considered as an independent director if that person does not fall under the list of persons outlined in paragraphs (a) to (g) of the definition of independent member?

If a person does not fall within any of the paragraphs (a) to (g) of the said definition, it does not mean that the person will automatically qualify to be an independent director. The person concerned as well as the board of directors of the management company shall still apply the test of whether the said person is able to exercise independent judgment and in addition to his duties and responsibilities as an independent director, represent and safeguard the interests of unit holders as required under these Guidelines.

[Issued: 21 Dec 2021]

GUIDANCE TO CHAPTER 3: THE MANAGEMENT COMPANY

Paragraph 3.07(k)(i): What is expected from the 'risk management and control systems'?

The risk management and control systems should –

- (a) be commensurate with the nature and scale of the transactions and investment activities that are undertaken for the fund;
- (b) be able to deal with normal and exceptional circumstances including extreme conditions; and
- (c) be able to monitor, measure, and manage all relevant risks the fund is exposed to, including risks associated with derivative investment activities, where applicable.

[Issued: 21 Dec 2021]

Paragraph 3.07(k)(ii): What does it mean by having an 'effective liquidity risk management' for its fund?

A fund may be considered to have an effective liquidity risk management framework if the management company has implemented, among others, the good practices as provided in *SC's Guidance Notes on Liquidity Risk Management for Fund Management and Unit Trust Management Companies* that are relevant to its fund.

Generally, a management company may utilise any liquidity management tool(s) for its fund. However, redemptions in kind and side pockets will not be permitted for unit trust funds due to the following:

- (a) Restriction on use of redemptions in kind: A management company must pay the unit holder the proceeds of the repurchase of units [in paragraph 8.18(a)].

- (b) Restriction on use of side pockets: The price of units must be calculated based on the fund's NAV divided by the number of units. As defined in these Guidelines, NAV means the value of all the fund's assets less the value of all the fund's liabilities at the valuation point. The NAV or NAV per unit may only be adjusted for dilution fee or transaction cost as provided under paragraphs 8.48 to 8.50 (which also include the application of swing pricing).

[Issued: 21 Dec 2021]

Paragraph 3.07(k): Is a standalone risk management policy and procedures documentation required for each and every fund?

Whilst a management company is required to prepare a RMP documentation for each fund in a standalone document, the management company may choose to prepare one common RMP documentation for funds where the RMP do not vary significantly.

[Issued: 21 Dec 2021]

Paragraph 3.07(k): Is there any expectation as to what should be included in the RMP documentation for a fund?

A management company should at least prepare the RMP documentation to include all relevant information that are clear and understandable. The primary components of a sound RMP are:

- (a) A comprehensive risk measurement approach;

- (b) A detailed structure of limits, guidelines and other parameters used to govern risk taking; and
- (c) A strong management information system for controlling, monitoring and reporting risks.

In the case where investment in derivatives is involved, the RMP documentation should include, at a minimum, details on contingency plans regarding credit events such as significant downgrading of credit rating and the collapse of the counterparty.

Further information on the content of the RMP documentation can be found in the *Forms in relation to unit trust fund (UTF Forms)* (UTF Application Form) that is available on the SC's website which may be amended from time to time.

[Issued: 21 Dec 2021, Updated: 1 March 2022]

Paragraph 3.07(m): What should a management company provide in its policies and procedures relating to a fund's valuation and pricing?

To ensure that a management company is able to comply with paragraph 8.34 of the Guidelines, its policies and procedures should cover the following areas:

- (a) The unit pricing process that would include, but is not limited to, controls to monitor, detect and prevent possible inaccurate pricing of the fund's units;
- (b) Currency conversion process; and
- (c) Valuation of the fund's assets and liabilities.

[Issued: 21 Dec 2021]

Paragraph 3.07(o): What would be considered as a change that may materially prejudice the interest of the unit holders?

Management company should refer to the guidance to paragraph 9.70 for the examples of change that may materially prejudice unit holders' interest.

[Issued: 21 Dec 2021]

Paragraph 3.11: [Deleted – No longer relevant]

[Issued: 21 Dec 2021, Deleted: 1 March 2022]

Paragraph 3.20: Should the policies, procedures and controls to manage potential conflict of interest include a process that require the trustee's approval for transactions made by the management company or its related corporation?

A management company where appropriate, may include a process to obtain the trustee's approval based on certain materiality thresholds.

[Issued: 21 Dec 2021]

Paragraph 3.24: Is there any expectation as to what is 'adequately trained'?

A management company should allocate at least 3% of its gross annual salary expense to train its officers, and the scope of the training should be relevant to the respective officer's roles.

[Issued: 21 Dec 2021]

GUIDANCE TO CHAPTER 5: CONSTITUTION OF THE FUND

Paragraph 5.06: What are the factors SC would take into account when considering if a fund's name is inappropriate or misleading?

The SC will take into account, among other matters, whether the name of the fund or any class of units of any fund—

- (a) implies that the fund or any class of units of any fund has merits which are not justified;
- (b) is inconsistent with the fund's investment objective or policy;
- (c) might mislead investors into thinking that a person other than the management company is responsible for the fund or part of the fund;
- (d) is substantially similar to the name of another fund in Malaysia or elsewhere; or
- (e) is in the opinion of the SC likely to offend the public.

[Issued: 21 Dec 2021]

GUIDANCE TO CHAPTER 6 AND SCHEDULE B: INVESTMENTS OF THE FUND

Paragraph 6.03: What would not be considered as dealings appropriate to the fund?

Dealings such as the disposal of assets with quick repurchase merely to realise capital gains, dealings for window-dressing or excessive dealing in the fund's assets, i.e. churning, are not considered appropriate to the fund.

[Issued: 21 Dec 2021]

Paragraph 6.05(f): What is an 'investment account' and which types of investment account are permitted under these Guidelines?

An investment account (IA) is a product offered by Islamic banks licensed by Bank Negara Malaysia that provides investors the opportunity to invest and share the profit from Shariah-compliant investment activities.

An IA may operate based on the following Shariah principles:

- (a) *Mudharabah* (profit sharing)
- (b) *Musarakah* (profit and loss sharing)
- (c) *Wakalah* (agency)

There are two (2) main types of IAs i.e. restricted and unrestricted IAs. A restricted investment accounts (RIA) enables customers to specify the investment mandate and the underlying assets that

their funds may be invested in. An unrestricted investment account (UIA), on the other hand, allows Islamic banks to determine the investment mandate and the structure of the investment account, which may include combining different UIAs into pools of funds that invest in diversified portfolios of underlying assets, in exchange for more flexible withdrawal conditions.

A fund is permitted to invest in both RIA and UIA. However, the limits that apply to it may differ from one IA to another.

Specifically, UIA is regarded as a money market instrument if it fulfils the following criteria:

- (a) The objective of the UIA is to provide stable returns through low to moderate risk investment; and
- (b) The tenure of the UIA placed with the Islamic Bank does not exceed 12 months from the placement date.

Examples of the abovementioned UIA are General Investment Account and Term Investment Account.

UIAs other than those described above and RIA are regarded as 'other securities'. In this regard, a management company should ensure that the IAs identified for investment by a fund is consistent with the objective of the fund. Prior to undertaking the process to reflect such investments in a fund's documentation, the management company should ensure that it has a risk management policy and procedures to monitor, measure and manage the risks associated (including credit risks and liquidity risks) with the said IAs. The management company should also ensure that they are able to verify the valuation methodology of the said IAs, independently. For avoidance of doubt, the 10% single issuer limit as prescribed under paragraph (3), Schedule B

of these Guidelines applies to the underlying investment of the IA e.g. the underlying ventures or borrowers.

[Issued: 21 Dec 2021]

Paragraph 6.05(f): Besides investment accounts, what are examples of other investment instruments that fall under 'other securities'?

Examples of 'other securities' include unlisted shares, investment notes, Islamic investment notes and digital assets. However, if these investment instruments meet the criteria of transferable securities and are traded or dealt in or under the rules of an eligible market, then they may be deemed as transferable securities.

[Issued: 21 Dec 2021]

Paragraph 6.08(a): What are examples of 'securities equivalent to shares'?

'Securities equivalent to shares' include units or shares in business trusts, depositary receipts, participatory notes, rights, warrants and any other rights, options or interests that can be converted into new shares. It is not intended to include convertible bonds, which will fall under bonds or other forms of securitised debt in paragraph 6.08(b).

However, when the convertible bonds are converted into shares, then it will fall under shares or securities equivalent to shares in paragraph 6.08(a).

[Issued: 21 Dec 2021, Updated 1 March 2022]

Paragraphs 6.09(b) and 6.16(a): How does a management company determine if a financial instrument, i.e. a transferable security or a derivative, is 'liquid'?

A financial instrument is considered to be liquid if it can be readily converted into cash at a value close to its fair price under normal market condition.

[Issued: 21 Dec 2021]

Paragraph 6.11(b)(i): What would the SC consider as having the level of investor protection that is at least equivalent to that offered in Malaysia?

In determining if the laws and practices provide the level of investor protection that is at least equivalent to that offered in Malaysia, a management company should consider the following factors:

- (a) There are rules governing the management of a CIS to ensure that there is high standards of integrity and fair dealing, and the CIS is managed in the best and exclusive interest of the unit holders;
- (b) The existence of an independent party with similar duties and responsibilities to a trustee in relation to both safekeeping and supervision. Examples of this would be a trustee, fund supervisor or independent depository. Where an independent depository is not a requirement of local law, robust governance structures may provide a suitable alternative;
- (c) Availability of pricing information and reporting requirements;

- (d) Redemption facilities and frequency;
- (e) Restrictions in relation to dealings by related parties; and
- (f) The extent of asset segregation where such assets can be clearly identified as the CIS' assets and are held separately from other assets held by the CIS' operator or fund manager and trustee or custodian.

[Issued: 21 Dec 2021]

Paragraph 6.11(b)(ii): For the purpose of these Guidelines, what does the SC mean by (a) 'substantially similar', and (b) 'a hedge fund'?

- (a) A CIS that –
 - (i) is subjected to regulations on diversification of permissible investments;
 - (ii) does not use leverage for investments; and
 - (iii) undertakes securities lending and repurchase transactions for efficient portfolio management purposes only,would be considered as substantially similar to a fund authorised under these Guidelines.
- (b) A hedge fund can be a CIS that aims to achieve a high return through the use of advanced or alternative investment strategies, such as use of long/short exposures, leverage, or hedging and arbitrage

techniques or such other CIS labelled, or categorised by the securities regulator regulating the fund, as a hedge fund.

[Issued: 21 Dec 2021]

Paragraph 6.11(d): What are the examples of CIS that fall under this category of CIS?

Examples of CIS that fall under this category include leveraged ETFs, inverse ETFs and ETFs that invest in digital asset.

[Issued: 21 Dec 2021]

Paragraph 6.17: Can a management company use the valuation provided by the OTC derivative counterparty?

Yes. However, the valuation by the management company should not be based solely on a valuation provided by the counterparty to the transaction.

[Issued: 21 Dec 2021]

Paragraph 6.17(b): Who would be considered an 'independent party' for the purposes of checking on the appropriateness of the valuation method?

The 'independent party' should be independent of the management company and the counterparty for the OTC derivative, and should have the relevant skill sets and qualifications to ensure that the valuation method adopted by the management company is appropriate. Examples would include the valuation agent or auditor of the fund.

[Issued: 21 Dec 2021]

Paragraph 6.24(a): The Guidelines requires the counterparty of an OTC derivative to have a credit rating of at least investment grade. However, if the counterparty is a financial institution that is not rated by any credit rating agency, can the fund still deal with the financial institution?

Where the financial institution is not rated, the requirement may be met if the financial institution has the benefit of a guarantee by an entity which has an investment grade credit rating (including gradation and subcategories).

[Issued: 21 Dec 2021]

Paragraph 6.33: Paragraph (2)(g), Appendix II of Chapter 6 requires the collateral, held by the trustee or an agent, be legally secured from the consequences of the failure of the trustee, counterparty of agent. In this regard, (a) Who is 'the agent'?; and (b) what is envisaged as 'legally secured from the consequences of failure'?

- (a) An agent refers to a person appointed for the fund for the purpose of securities lending or repurchase transaction activities.
- (b) It is envisaged that the methods for collateral to be legally secured from the consequences of failure of the trustee, counterparty or agent, includes-
 - (i) when the collateral is held in trust for the fund by the trustee or the agent; or

- (ii) when the collateral is recorded as the fund's asset.

[Issued: 21 Dec 2021]

Paragraph 6.38: What is the expectation with regard to rectification of insufficient collateral?

A marked-to-market shortfall on day T should be rectified by the receipt of additional collateral by T+1 business day. For the purpose of this guidance, business day should be based on those of the counterparty's.

[Issued: 21 Dec 2021]

Schedule B, Paragraph (13)(a): What does the SC mean by 'prior to the commencement of investment'?

The point of time where the exception applies are as follows:

- (a) During the initial offer period and prior to commencement of investment by a newly established fund; or
- (b) The day in which an existing fund receives substantial subscription monies in the fund's operating account.

[Issued: 21 Dec 2021]

Schedule B – Appendix II, Paragraph (9)(a): Which foreign governments, government agencies and supranational are considered as acceptable by the SC?

The SC may consider a foreign government, government agency (foreign and Malaysian) and supranational as acceptable for a

country-specific government bond or fixed income fund if it is one of the following:

- (a) Government of ASEAN member countries;
- (b) Government of G20 member countries;
- (c) Government of OECD member countries;
- (d) Government of the European Union (EU) member states;
- (e) The European Union; or
- (f) Islamic Corporation for the Development of the Private Sector.

Notwithstanding the above, a management company should consult the SC prior to making a submission to the SC for the establishment of a country-specific government bond or fixed income fund.

[Issued: 21 Dec 2021]

Schedule B – Appendix II, Paragraph (9)(b): When would debt securities or money market instruments be regarded as being of a different issue?

Debt securities or money market instruments will be regarded as being of a different issue if, even though they are issued by the same person, they are issued on different terms whether as to repayment dates, interest rates, the identity of the guarantor, or otherwise.

[Issued: 21 Dec 2021]

Schedule B – Appendix V, Paragraph (5)(e): When would an index be considered as being transparent?

The index would generally be regarded as transparent if the following information is made available:

- (a) The index composition; and
- (b) The methodologies used to construct the index, select the constituents, collect the price data of constituents and rebalance the index.

[Issued: 21 Dec 2021]

General - Rating of an investment instrument, issuer, guarantor, counterparty or financial institution

Where a minimum rating requirement is prescribed in these Guidelines, such rating refers to one of the following, unless otherwise specified in these Guidelines:

Requirement	Rating by Malaysian Rating Agency	Rating by Global Rating Agency
Highest long-term rating	<ul style="list-style-type: none"> • AAA by RAM² • AAA by MARC³ 	<ul style="list-style-type: none"> • AAA by S&P⁴ • AAA by Moody's • AAA by Fitch
Top two credit rating (including gradation and subcategories)	<p>At least the following:</p> <ul style="list-style-type: none"> • AA₃ by RAM • AA- by MARC 	<p>At least the following:</p> <ul style="list-style-type: none"> • AA- by S&P • Aa3 by Moody's • AA- by Fitch
<ul style="list-style-type: none"> • High quality long-term rating • Top three credit rating (including gradation and subcategories) 	<p>At least the following:</p> <ul style="list-style-type: none"> • A₃ by RAM • A- by MARC 	<p>At least the following:</p> <ul style="list-style-type: none"> • A- by S&P • A3 by Moody's • A- by Fitch
<ul style="list-style-type: none"> • Investment grade 	<p>At least the following:</p> <ul style="list-style-type: none"> • BBB₃ by RAM 	<p>At least the following:</p> <ul style="list-style-type: none"> • BBB- by S&P • Baa3 by Moody's

² 'RAM' refers to RAM Rating Services Bhd.

³ 'MARC' refers to Malaysian Rating Corporation Bhd.

⁴ 'S&P' refers to Standard and Poor's.

Requirement	Rating by Malaysian Rating Agency	Rating by Global Rating Agency
<ul style="list-style-type: none"> • Top four credit rating (including gradation and subcategories) 	<ul style="list-style-type: none"> • BBB- by MARC 	<ul style="list-style-type: none"> • BBB- by Fitch
Top two short-term rating	<p>At least the following:</p> <ul style="list-style-type: none"> • P2 by RAM • MARC-2 by MARC 	<p>At least the following:</p> <ul style="list-style-type: none"> • A-2 by S&P • P-2 by Moody's • F2 by Fitch

Where an investment instrument, issuer, guarantor, counterparty, or financial institution is rated by more than 1 rating agencies, the stricter rating is to be adopted.

[Issued: 21 Dec 2021]

GUIDANCE TO CHAPTER 7: CHARGES, FEES AND EXPENSES

Paragraph 7.10: What are the acceptable methods of computation for performance fee?

The following methods of computation for performance fee are acceptable:

- (a) Fulcrum fee model;

- (b) High-water mark; or
- (c) High-on-high.

The management company should consult the SC for any other methods of computation for performance fees.

[Issued: 21 Dec 2021]

Paragraph 7.18: What are examples of expenses that may be paid out of the fund?

Examples of expenses that may be paid out of the fund include the following:

- (a) Commissions or fees paid to brokers or dealers in effecting dealings in the fund's assets, shown on the contract notes or confirmation notes or difference accounts;
- (b) Remuneration relating to the custodial function for the fund's assets outside Malaysia that is delegated to sub-custodians;
- (c) Tax and other duties charged on the fund by the government and other authorities;
- (d) Fees and other expenses properly incurred by the auditor appointed for the fund;
- (e) Fees for the valuation of fund's assets;
- (f) Fees in relation to fund accounting;

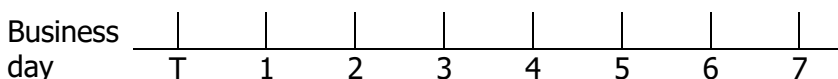
- (g) Costs incurred for the modification of the deed other than those for the benefit of the management company or trustee; and
- (h) Costs incurred for any meeting of unit holders other than those convened by, or for the benefit of, the management company or trustee.

[Issued: 21 Dec 2021]

GUIDANCE TO CHAPTER 8: DEALING, VALUATION AND PRICING

Paragraph 8.18(a): How should a management company calculate the '7 business days' timeframe?

'7 business days' is referring to T+7 business days with T-business day referring to the day the repurchase request is received by the management company. The '7 business days' timeframe is illustrated below:



[Issued: 21 Dec 2021]

Paragraph 8.21: Would the requirement in this paragraph apply to payments made by investors via credit or charge card?

No, the requirement does not apply to payments for units via credit or charge card.

[Issued: 21 Dec 2021]

Paragraph 8.23: What would be considered as exceptional circumstances where a management company may suspend dealing in units of a fund?

Exceptional circumstances can be considered where the market value or fair value of a material portion of the fund's assets cannot be determined. For avoidance of doubt, difficulties in realising the fund's assets or temporary shortfalls in liquidity may not, on their own, be sufficient justification for suspension.

[Issued: 21 Dec 2021]

Paragraph 8.34: Where the fund has foreign investments, what would be the valuation point to enable the fund to ensure the valuation is fair and accurate?

Investment instruments can be traded and quoted on more than one eligible market and each market may be operating in different time zones. As such, the fund's valuation point on a dealing day should be the closing time of the eligible market on that same dealing day of the fund.

Example: For 1 March 200X, the valuation will start on 7:00am the following day i.e. 2 March 200X (Kuala Lumpur time), valuation is carried out and the following prices should be used:

- a) (Kuala Lumpur): Last done prices as at 5:00 pm, 1 March, at the close of Bursa Malaysia;

- b) (New York): Last done prices as at 4:00pm, 1 March, (equivalent to 5:00 am, 2 March, Kuala Lumpur time) at the close of the exchanges on which the equities are traded;
- c) (London): Last done prices as at 4:00 pm, 1 March, (equivalent to 12:00 at night, 2 March Kuala Lumpur time) at the close of the exchanges on which the equities are traded;
- d) (Japan): Last done prices as at 3:00 pm, 1 March (equivalent to 2:00 pm, 1 March Kuala Lumpur time) at the close of exchanges on which the equities are traded; and
- e) (Bangkok): Last done prices as at 5:00 pm, 1 March (equivalent to 6:00 pm, 1 March Kuala Lumpur time) at the close of exchanges on which the equities are traded.

The timing used for the above example is strictly for illustration purposes only.

This guidance intends to standardise the valuation methodology for funds with foreign investments and should be consistently applied for these funds. Management companies should adopt forward pricing for the purpose of valuing the fund's foreign investments NAV to minimise the risk of any arbitraging opportunities arising from the timing differences as the price of the unit would be unknown to the investors at the time of placing the request.

[Issued: 21 Dec 2021]

Paragraph 8.34: The fund's assets and liabilities may be denominated in different currencies. Also, a fund may offer units in different currencies or in a currency different from the fund's base currency. In this case, what is the expectation pertaining to determining the exchange rate?

Where the prices of an asset or a liability of a fund is denominated in a foreign currency, the exchange rate to be used in converting the valuation to the base currency, for example Ringgit Malaysia should be bid foreign exchange rate quoted by either –

- (a) Reuters; or
- (b) Bloomberg,

at U.K time 4:00 pm the same day.

[Issued: 21 Dec 2021]

Paragraph 8.39: A fund is permitted to use either forward pricing or historical pricing. Is there any expectation on when a fund may adopt one pricing policy over the other?

While these Guidelines permit either pricing policy, a fund should adopt forward pricing. This is to mitigate the risk of any arbitraging opportunities arising from the timing differences as the price of the unit would be unknown to the investors at the time of placing the request. However, the adoption of historical pricing may be considered in the case of certain money market funds.

[Issued: 21 Dec 2021]

Paragraph 8.42(b): What information should be submitted in the notification to the SC when an incorrect valuation or pricing occurs?

The management company should at least provide a report covering the following information in the notification:

- (a) The name of the fund and class(es) of units affected by the incorrect valuation or pricing (error);
- (b) Descriptions of the nature of the error e.g. overvalued or undervalued and the magnitude of error as a percentage of the fund's NAV;
- (c) A computation of the error;
- (d) When and how the error was discovered;
- (e) Details on the reasons for the error;
- (f) Name of the entity responsible for the error;
- (g) The time period over which the error occurred; and
- (h) In the event where reimbursement is required:
 - (i) The number of affected unit holders who –
 - (A) subscribed; and
 - (B) redeemed,during the time period over which the error occurred, if any;

- (ii) The amount of reimbursement to be paid, if any, to –
 - (A) unit holders; and
 - (B) the fund;
- (iii) The entity that pays for the reimbursement;
- (iv) A computation of the total reimbursement to be made; and
- (v) The measures taken, or to be taken, to improve internal controls and prevent the occurrence of similar incidents.

[Issued: 21 Dec 2021]

Paragraph 8.43: If there is more than one error occurring on a single day, must the management company determine whether the threshold is breached at each occurrences?

Where there are more than one error occurring on a single day, it is the net effect of all errors that should be considered at the end of that day. If a single error is protracted over successive days, the 0.5% of the NAV per unit threshold is applicable for each day separately.

[Issued: 21 Dec 2021]

Paragraph 8.43(a): What are examples of scenarios where the management company should reimburse the fund as a result of a valuation or pricing error?

Where a fund incurs a loss as a result of a valuation or pricing error where the investors received more units than they would have if no error had occurred.

[Issued: 21 Dec 2021]

Paragraphs 8.48 to 8.53: The Guidelines allows a management company to adjust the price of a unit of a fund to take into account dilution or transaction cost (involved in acquiring and disposing a fund's asset). Does this mean that the use of swing pricing is permitted?

Swing pricing refers to a process for adjusting a fund's NAV to effectively pass on transaction costs stemming from net capital activity (i.e. flows into or out of the fund) to the investors associated with that activity during the life of the fund, excluding the initial offer period or fund termination.

A management company is permitted to apply swing pricing, and when doing so, the management company should ensure the following:

- (a) For the purpose of paragraph (8), Schedule E, the fund's performance is to be calculated based on swung prices;
- (b) For the purpose of paragraphs 7.06 and 7.09(a), the fees and charges of the fund, including any

performance fees and fees based on NAV, should be based on unswung NAV; and

- (c) If the fund's deed and prospectus provide the management company with the discretion to, under certain pre-defined circumstances, apply a swing factor that is beyond the maximum swing factor disclosed in the prospectus, the decision to exceed the current maximum swing factor is to be duly justified and is made in the best interest of all unit holders i.e. both existing and new unit holders.

A management company that wishes to apply swing pricing to a fund should establish a swing pricing policy defining the parameters including whether it will be a full swing, or if a partial swing is used, the swing threshold, swing factor, as well as the applicability, which may differ from one fund to another fund. The swing pricing policy should be clearly defined prior to implementation and communicated to those administering the swing pricing policy, accordingly. Swing pricing policy should be applied consistently and systematically.

[Issued: 21 Dec 2021]

GUIDANCE TO CHAPTER 9: OPERATIONAL MATTERS

Paragraph 9.10: What is considered as distribution out of capital?

Any distribution paid out of unrealised income or unrealised gains is considered as capital distribution.

The following may be used as reference when determining 'distributable income':

- (a) The net investment income (i.e. dividend, coupon, interest income net of fees and expenses) and may include net realised gains (if any) based on unaudited accounts.
- (b) 'Distributable income' which is not declared and paid as distribution in a period of a financial year can be carried forward as distributable income for the next period(s) within the same financial year. 'Distributable income' that has been accrued as at the end of a financial year and is declared and paid as distribution at the next distribution date immediately after that financial year end could be treated as 'distributable income' in respect of that financial year. **However, 'distributable income' which has been accrued as at the end of a financial year but is not declared and paid as distribution at the next distribution date immediately after that financial year end should be included as 'capital' for the next financial year.**
- (c) Where the fund pays distribution out of gross income while charging or paying all or part of the fund's fees and expenses to or out of capital, respectively, the amount of fees and expenses that has been paid out of capital has to be deducted from the gross investment income in order to come up with the 'distributable income'.

[Issued: 21 Dec 2021]

Paragraphs 9.12 and 9.14: Can the requirement to send a statement providing the required information to the unit holders be satisfied by sending the statement or making available the required information to unit holders, electronically?

Yes, for a fund that is offered exclusively via electronic platforms, the management company may satisfy the requirements by sending the statement or making available the required information to unit holders, electronically, provided adequate disclosures have been made in the prospectus of the fund.

The same can also apply to a fund that is offered via the conventional distribution channels, provided that the management company complies with paragraph 7.06 of the *Guidelines on Online Transactions and Activities in Relation to Unit Trusts*.

[Issued: 1 March 2022]

Paragraph 9.16: What does it mean by 'sustainable appreciation' of NAV?

'Sustainable appreciation' can be illustrated through the following example:

- (1) Average NAV per unit between 16/5-15/6/202X
- (2) Average NAV per unit between 16/6-15/7/202X
- (3) Average NAV per unit between 16/7-15/8/202X
- (4) Average NAV per unit between 16/8-15/9/202X
- (5) Average NAV per unit between 16/9-15/10/202X
- (6) Average NAV per unit between 16/10-15/11/202X

The monthly average NAV per unit of the fund would have been on an increasing trend during the abovementioned period before it can undertake the unit split exercise in October 202X.

For the avoidance of doubt, the monthly average NAV per unit need not be calculated on a calendar month.

[Issued: 21 Dec 2021]

Paragraphs 9.33 and 9.35: What does it mean by 'immediate production of the report may be dispensed with' in paragraph 9.33 and 'financial period then running' in paragraph 9.35 and how should the requirements in these paragraphs be read?

The intention of these requirements is to reduce the cost of preparation of fund report of a fund that is to be terminated. The reference to 'immediate production of the report may be dispensed with' refers to the flexibility to extend the period of coverage for the final fund report.

The following illustrates the abovementioned scenario:

- The financial year end of Fund XYZ is 31 December
- UTMC ABC (being the management company of Fund XYZ) announced on 15 June 202X, that it is terminating Fund XYZ and the termination process will commence on 1 July 202X
- On 1 July 202X, there are 10 unit holders that remained in Fund XYZ
- The process of terminating Fund XYZ completed on 20 September 202X

Based on paragraph 9.33, UTM ABC may dispense with the production of Fund XYZ's semi-annual report⁵, provided that after consulting the auditor and the trustee of Fund XYZ, UTM ABC has taken reasonable care to determine that timely production of a fund report is not required in the interests of unit holders.

Based on paragraph 9.35, UTM ABC can produce the final fund report for Fund XYZ which covers a period from 1 January 202X to 20 September 202X (being the completion date of fund termination). UTM ABC is required to send the final fund report to the SC and to the 10 unit holders whose name are in the register of Fund XYZ on 1 July 202X latest by 20 November 202X.

Using the above illustration as reference, the financial period then running refers to the period from 1 January 202X to 20 September 202X.

[Issued: 21 Dec 2021]

Paragraph 9.45 and all requirements pertaining to meeting of unit holders: Would the requirements also apply to meetings called for a particular class of a fund?

All references to a meeting of unit holders shall include a meeting of unit holders of a class of units and all requirements in these Guidelines applicable to a meeting of unit holders shall be equally applicable to a meeting of unit holders of a class of units.

[Issued: 21 Dec 2021]

⁵ If Fund XYZ is not being terminated, the semi-annual report is to cover a period from 1 January 202X to 30 June 202X.

Paragraph 9.70: What are the examples of changes that may materially prejudice the interests of unit holders?

Examples of changes that may materially prejudice the interests of unit holders would include the following:

- (a) Changes to the nature or objective of the fund;
- (b) Changes to the risk profile of the fund;
- (c) Change in distribution policy;
- (d) Introduction of a new category of fees or charges; or
- (e) Increase in fees or charges.

[Issued: 21 Dec 2021]

Paragraph 9.71: Is a management company required to provide a fund applicant with the right to withdraw his application upon the registration of a supplementary or a replacement prospectus for any change other than a significant change?

Section 238(1)(A)-(D) of the CMSA sets out the circumstances where a management company is required to register a supplementary or replacement prospectus and Section 239 of the CMSA sets out the requirements where a management company is required to provide a fund applicant with the right to withdraw his application upon the registration of a supplementary or a replacement prospectus.

A management company does not need to provide a fund applicant with the right to withdraw his application if the supplementary or replacement prospectus was issued voluntarily and not pursuant to the circumstances as set out in Section 238(1)(A)-(D) of the CMSA.

[Issued: 28 Nov 2022]

Paragraph 9.71(a): What are the examples of significant change which may affect a unit holder's decision to stay invested in a fund?

Examples of a significant change which may affect a unit holder's decision to stay invested in the fund include –

- (a) change in investment strategy of the fund;
- (b) change in distribution policy of the fund; or
- (c) change in minimum balance.

Editorial changes such as amending grammatical errors, or correcting pagination, paragraphing and numbering in the prospectus are changes that will not require any notification to unit holders.

[Issued: 21 Dec 2021]

**GUIDANCE TO CHAPTER 11: APPLICATIONS,
NOTIFICATIONS AND REPORTING TO THE
SECURITIES COMMISSION MALAYSIA**

Paragraph 11.02(c)(i): When would an investment in derivatives be considered as for hedging purposes?

A fund's investment in derivatives is considered as for hedging purposes if it meets the following:

- **Motivation**

To mitigate risk that arises due to an identified underlying exposure.

- **Transaction size**

The transaction size must be appropriate to offset any risks associated with the underlying being hedged.

- **Transaction tenure**

The hedge tenure should be commensurate with the tenure and timing of the exposure.

[Issued: 21 Dec 2021]

Paragraph 11.02(d): At the point of submission of application for SC's authorisation, the fund is not seeking to be assessed as a Qualifying CIS or has any intention to apply for the Qualifying CIS status. However, the registrable deed or prospectus submitted as part of the application for SC's authorisation contains reference to the Standards of Qualifying CIS. In this case, can the application for SC's authorisation be submitted under the expedited authorisation process if the fund is a fund that is other than those listed in paragraphs 11.02(a) to (c)?

If the management company has no intention for the fund (that is seeking SC's authorisation) to be a Qualifying CIS, then the registrable deed and prospectus (**fund's documentation**) of the fund should not contain any reference to the Standards of Qualifying CIS, ACMF or cross-border offering of the fund.

The reference to the Standards of Qualifying CIS is permitted in a fund's documentation if the management company has plans for the said fund to be a Qualifying CIS in the future. However, the fund will **not be eligible** to be considered under the expedited authorisation process. This is also applicable to a new fund established under a new deed that will be a master deed for other funds to be established by the management company. In this regard, such applications will be considered under the standard authorisation process.

[Issued: 21 Dec 2021]

Paragraph 11.04: What other funds have the SC determined to be eligible or not eligible under the expedited authorisation process?

The following are funds that would be eligible:

- Close-ended funds which do not fall under any of the criteria in paragraph 11.02 save for paragraph 11.02(c)(v).

The following are funds that would not be eligible:

- Money market funds.

[Issued: 15 April 2022]

Paragraph 11.04: Are there any other funds that will not be eligible under the expedited authorisation process?

Where the fund has novel (new) features, the management company should consult the SC on whether such fund would be eligible under the expedited authorisation process. Novel features refer to features which are not characteristic of unit trust schemes authorised or approved by the SC that may reasonably be expected to have a material impact on investors. An example would be where a fund proposes a performance fee with features that have not been previously considered by the SC.

Further, a fund that utilises liquidity risk management tool i.e. swing pricing or deferred redemption payment, will not be eligible for the expedited authorisation process. The management company is encouraged to consult the SC before making the submission if they are in doubt.

[Issued: 21 Dec 2021, Updated 28 Nov 2022]

GUIDANCE TO CHAPTER 12: [Deleted]

[Issued: 21 Dec 2021, Deleted: 28 November 2022]

GUIDANCE TO SCHEDULE C: VALUATION

Item (b)(ii) of Investment instruments not listed or quoted on an exchange: What are some of the measures and safeguards that can be put in place to address the relevant risks associated with the use of amortised cost accounting?

Measures and safeguards include monitoring the difference between the amortised cost of a money market instrument and its value on an ongoing basis, and ensuring appropriate actions are taken promptly where such difference exceeds threshold determined by the management company for the fund.

[Issued: 21 Dec 2021]

GUIDANCE TO SCHEDULE D: DEED OF A UNIT TRUST FUND

Paragraph (10): For a multi-class fund, what should the management company consider when determining the differences between the classes and the rights of each class?

The management company should consider the following:

- (a) A class of units should not provide any advantage for that class if that would result in prejudice to unit holders of any other class;
- (b) The nature, operation and effect of the new class of units should be capable of being explained clearly to prospective investors; and
- (c) The effect of the new class of units should not be contrary to the requirements of the CMSA or the purpose of any part of these Guidelines.

[Issued: 21 Dec 2021]

Paragraph (16)(b): What are examples of circumstances in which the pricing method can change?

An example would be swing pricing as described in the guidance to paragraphs 8.48 to 8.53.

[Issued: 21 Dec 2021]

Paragraph (16)(b): Can a management company provide for circumstances where it has a discretion to apply a swing factor that exceed the maximum swing factor as disclosed in the prospectus?

Yes, provided that pre-defined circumstances that is made in the best interested of all investors (including both existing and new investors) is disclosed.

[Issued: 21 Dec 2021]

**GUIDANCE TO SCHEDULE E: CONTENTS OF A FUND'S
REPORT**

Paragraph (15)(n): Which 'other clients' accounts' are being referred to in the requirement?

'other clients' accounts' includes any other investment portfolios or funds managed by the management company or fund manager e.g. unit trust funds (besides the fund), exchange-traded funds, private retirement scheme funds or wholesale funds.

[Issued: 21 Dec 2021]