

FREQUENTLY-ASKED QUESTIONS
ON REVISION TO LICENSING HANDBOOK
DATED 8 JULY 2015

1.0 Fund Management (Portfolio Management)

1.1 Is there any restriction on foreign equity holdings of a boutique fund management company?

There is no restriction on foreign equity holdings of a boutique fund management company.

1.2 Can a fund management company vary its licence to a boutique fund management company?

A fund management company could vary its licence to become a boutique fund management company but such change would require the prior approval from the SC. The fund management company must provide a declaration to the SC that it satisfies the relevant criteria to be a boutique fund management company including:

- (a) The company does not manage assets of more than RM750 million;
- (b) It only deals with sophisticated investors;
- (c) Its total number of clients does not exceed 50 (of which no more than 15 may be funds/ collective investment schemes); and
- (d) Submission of its business plans for the change of the category to support its application.

1.3 Can a boutique fund management company change its licence to become a full-fledged fund management company?

Such change would require the prior approval from the SC and full compliance with the relevant requirements to be a fund management company, including, but not limited to–

- (a) have a licensed director;
- (b) have a registered and dedicated compliance officer;
- (c) maintain a minimum paid up capital and shareholders' funds of RM2 million at all times;
- (d) have at least two CMSRL holders; and
- (e) compliance with the relevant Bumiputera requirements.

1.4 What should a boutique fund management company do if its AUM exceeds RM750 million due to market appreciation?

The company should immediately notify the SC and reinstate the position within one (1) month from the breach of the limit. In the meantime, it should not accept new injection of monies. Notwithstanding such measure, it is expected that the company must have a monitoring and control mechanism in place to monitor its AUM limit to ensure such breaches do not occur.

1.5 Would the existing reporting requirements, for example Annual Reporting for Authorisation Activity (ARAA) reporting, Form A etc. be applicable for boutique portfolio management company?

Yes. The existing reporting requirements are applicable for boutique fund management company.

1.6 Can a fund management company including boutique fund management company provide investment advice without having to apply for a CMSL in Investment Advice?

A fund management company including boutique fund management company can provide investment advisory services to its clients where the assets are held by the clients. Such advice relates to the activity of fund management and should not extend to the issuance of research reports, corporate finance advice or financial planning. There must be proper advisory mandates in place between the fund manager and the client. A fund management company cannot hold out itself as a licensed investment adviser.

2.0 Dealing in Securities – Restricted

2.1 What are the new types of restricted licences introduced for dealing in securities?

The new restricted dealing licences are:

- Dealing in securities restricted to listed securities; and
- Dealing in securities restricted to over-the-counter (OTC) bonds

2.2 Does the CMSL undertaking these new types of restricted licences introduced for dealing in securities need to be registered as a participating organisation?

CMSL holders for the dealing in securities restricted to listed securities and OTC bonds are not required to register as a participating organisation under the rules of an exchange.

2.3 Are there any additional requirements imposed by the SC for the licence application?

To support the licence application for a CMSL, the SC may also require the following:

- (a) Value proposition of the business model;
- (b) An independent readiness audit as prescribed by the SC where the review must be carried out by a party that is independent of the trading and operations of the applicant; and
- (c) Dedicated investments in creating investor awareness, product understanding and development of the industry.

2.4 Can a CMSL holder licensed for restricted dealing in OTC bonds deal with retail investors?

No. A CMSL holder licensed for restricted dealing in OTC bonds can only deal with sophisticated investors.

2.5 Will the SC consider allowing a CMSL holder licensed for restricted dealing in OTC bonds to deal with retail investors?

The SC will take a phased approach and may consider allowing the CMSL holder licensed for restricted dealing in OTC bonds to deal with retail investors in the future. Factors which the SC will consider include the ability of such CMSL holder to demonstrate that there are sufficient controls in place and investors' interests are safe guarded.

3.0 Miscellaneous

3.1 As an entity licensed as boutique portfolio management or dealing in securities restricted to listed securities or OTC bonds, do I need to have a dedicated registered compliance officer?

Can I outsource the function to another service provider if I am not part of a group?

You may have a responsible person for compliance instead of having a dedicated compliance officer. If you are not part of a group, you may outsource the

compliance function to any specialist in compliance and risk management subject to SC's prior approval. The accountability for compliance always rests with the CMSL's Management and Board.

3.2 Does the CMSL holder licensed for dealing in securities restricted to listed securities or OTC bonds or licensed as a boutique portfolio management company need to register its responsible person for the compliance function with the SC?

Yes, registration is required. The CMSL holder must submit Form 24 via the Electronic Licensing Application system.

3.3 Can the responsible person for the compliance function undertake any other functions in the company?

The responsible person may undertake other functions such as IT, administration, internal audit, legal or product development. However, the company is to ensure that there is no conflict of interest arising from the functions undertaken by the responsible person.

3.4 Should an entity licensed for dealing in securities restricted to listed securities or OTC bonds or licensed as a boutique portfolio management company be a member of Securities Industry Dispute Resolution Center (SIDREC) and contribute to the Capital Market Compensation Fund (CMCF)?

Yes, they are required to be a member of SIDREC and contribute to CMCF.