Suruhanjaya Sekuriti
Securities Commission

CONSULTATION PAPER

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ESTABLISHING A SINGLE LICENSING SYSTEM

The Securities Commission invites your written comments on the issues set out in this consultative paper. Comments are due by **7 June 2006** and should be sent to:

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1. Executive Summary

1.1 Following the recommendations of the Capital Market Masterplan ("CMP") to consolidate the current securities and futures laws into a single law and to formulate a single licensing framework for the securities and futures industries, the Securities Commission ("SC") has proposed the following –

(a) the consolidation of the Securities Industry Act 1983 ("SIA"), the Futures Industry Act 1993 ("FIA") and the fundraising provisions of the Securities Commission Act 1993 ("SCA") into a single legislation; and

(b) the formulation of a single licensing framework applicable to securities and futures intermediaries.

1.2 At the same time, the SC is taking this opportunity to rationalise and modernise the existing regulatory framework for the capital market in order to cater to the ever-changing financial landscape both globally and domestically.

1.3 The SC hopes that the responses to this paper will assist it in formulating a robust regulatory framework that would support the continued growth of a vibrant capital market.

2. Single Licensing Framework for Capital Market Services

Background

2.1 A common feature of securities regulation is that only approved persons can carry on the business of providing capital market intermediation services.

2.2 The IOSCO[1] Objectives and Principles on Securities Regulation advocate that those who provide capital market intermediation services should be "licensed". This is because the right to provide the capital markets such services should be conditional upon the person being able to satisfy certain criteria that is determined by the licensing authority.

The importance of licensing intermediaries

2.3 Principles 21 to 24 of the IOSCO Objectives and Principles on Securities Regulation set out the regulatory objectives and principles of licensing those who provide capital market intermediation services. According to these principles, securities laws therefore should –

(a) provide for minimum entry standards for market intermediaries;

[1] IOSCO refers to the International Organisation of Securities Commissions.

(b) ensure that there should be initial and on going capital and other prudential requirements for market intermediaries that reflect the risks the intermediaries undertake;

(c) ensure market intermediaries comply with standards for internal organisation and operational conduct that aim to protect the interest of clients, ensure proper management of risk, and under which the management of the intermediary accepts primary responsibility of these matters; and

(d) provide a procedure for dealing with the failure of a market intermediary in order to minimise damage and loss to investors and to contain systemic risk.

2.4 The SC acknowledges that the licensing framework for those who provide capital market intermediation services is an integral aspect in the overall framework of securities regulation and should comply with IOSCO Objectives and Principles on Securities Regulation. This is because licensing is a means to ensure that there is protection of investors and that the market will operate in a fair, efficient and transparent manner.

2.5 Further, with licensing, an investor will be able to distinguish qualified intermediaries from those who are not qualified. In addition, by attaching conditions to the licence, the regulator would be able to regulate the business conduct of intermediaries.

Current Licensing Framework

2.6 The current framework for securities and futures regulation in Malaysia provides that a person must possess a valid licence to carry on the business of intermediation services. Failure to do so constitutes an offence under the respective Acts[2].

[2] The licensing framework in respect of securities intermediation services is provided for by Part IV of the SIA whilst the licensing framework in respect of futures intermediation services is provided for under Part III of the FIA.

2.7 There are currently six activities that require a licence. These include –

1. Dealing in securities;
2. Fund management;
3. Investment advice;
4. Trading in futures contracts;
5. Advising on futures contracts; and
6. Futures fund management.

2.8 For example, under the current framework for licensing of securities dealers and futures brokers as provided for respectively under the SIA and the FIA, the carrying on of the business of dealing in securities and trading in futures contracts would require separate dealer's and futures broker's licences respectively. Hence, a person who deals in securities who also wishes to trade in futures contracts would by law be required to hold two separate licences. The requirement to hold separate licences in such an instance does not offer any additional protection to investors. Instead, it imposes additional cost and administrative burden on industry participants.

Proposed New Framework

2.9 A key driver for the proposed new licensing framework for those who provide capital market intermediation services is the consolidation of the stockbroking industry, an initiative which the SC launched in 2001, and the establishment of investment banks.

2.10 The consolidation exercise witnessed the creation of universal brokers who, due to their high capitalisation were allowed to undertake a wider range of capital market services under a single legal entity. This included amongst other things dealing in securities, trading in futures contracts, fund management, distribution of unit trust products, corporate finance and underwriting.

2.11 However, the existing licensing framework has not catered to those developments as the carrying on of securities and futures activities were envisaged to be undertaken by two different legal entities which are regulated by two separate legislations.

2.12 An effort to address this issue was in fact made in 2004 when the SIA was amended to allow the expiry dates of licences to be adjusted so that securities and futures licences can be timed to expire simultaneously and hence, be renewed simultaneously.

2.13 However, the interim amendment did not address a more fundamental issue which is that both securities and futures activities still require two separate licenses to be issued under the two separate laws. Consequently, the regulation of a universal broker that carries on securities and futures businesses may not be regulated in a consistent manner.

2.14 For example, the fit and proper requirements applicable to participants in the securities and futures markets are not standardised. The SIA regulates these requirements via a schedule to the Act whilst, the FIA addresses these issues in regulations. While these requirements in the main are similar, the very fact that they involve two sets of requirements leads to additional burden on participants intending to undertake multiple services under a single legal entity.

2.15 The SC is of the view that the "fit and proper requirements" for market intermediaries should be standardised as far as possible for all holders of capital markets services licences. Furthermore, it is also noted that in Singapore and Hong Kong, the "fit and proper requirements" apply also to exempted persons and are extended to substantial shareholders of the licensed holder.

2.16 The changes proposed in this paper, are in line with recommendations 81, 82 and 123 of the CMP, and will allow universal brokers and investment banks to provide a full range of capital market services under a single licence and hence, allowing them to compete with multinational integrated financial services providers.

2.17 Singapore, Hong Kong, Australia and the UK are some of the countries that have consolidated their respective securities and futures laws. In these jurisdictions, the regulator only issues one single licence for providers of capital market intermediation services.

2.18 In Australia, this licence is referred to as the "Australian Financial Services Licence" and this is reflective of the Australian Securities and Investments Commission's (ASIC) position as regulator for all financial services spanning securities, futures, superannuation, insurance and banking products. In Singapore, this licence is referred to as a "Capital Markets Services Licence". Hong Kong and the UK, however, do not use any special nomenclature for the licence.

2.19 In line with this international trend, the SC is proposing that market intermediaries should only be issued with a single licence that will enable the intermediary to provide one or more intermediation services to the public. The strength of this proposed new licensing framework is that it will reduce cost and regulatory burden for industry participants and will at the same time reduce the regulator's administrative burden. It is proposed that the licence to be issued under this framework is referred to as a "Capital Markets Services Licence (CMSL)." Under this scheme, an intermediary is required to be licensed if it wishes to carry on the business in one or more regulated activities.

2.20 The following activities are proposed to be "regulated activities" under this new framework –

1. Dealing in securities;

2. Trading in futures contracts;

3. Advising on corporate finance;

4. Investment advice;

5. Financial planning; and

6. Fund management.

2.21 It is proposed that the regulated activity of "investment advice" would comprise two types of activity, i.e. investment advice relating to securities and investment advice relating to futures contracts. Similarly, it is proposed that the regulated activity of "fund management" would comprise of fund management in respect of securities or fund management in respect of futures contracts, or both.

Scope of Regulated Activities

2.22 In defining the regulated activities, it is proposed that the existing definitions of dealing in securities and trading in futures contracts provided in the SIA and FIA be retained in essence. These definitions are similar to those found in Singapore and Hong Kong.

2.23 Nevertheless, new definitions have been proposed for the terms "advising in corporate finance" and "financial planning", whilst some adjustments have been made to the definition of "fund management".

2.24 "Dealing in securities" as currently provided in section 2 of the SIA means, whether as principal or agent –

(a) acquiring, disposing of, subscribing for or underwriting securities; or

(b) making or offering to make with any person, or inducing or attempting to induce any person to enter into or to offer to enter into –

(i) any agreement for or with a view to acquiring, disposing of, subscribing for or underwriting securities; or

(ii) any agreement, other than a futures contract, the purpose or avowed purpose of which is to secure a profit to any of the parties from the yield of securities or by reference to fluctuations in the value of securities.

2.25 "Trading in futures contract" means –

(a) making or offering to make with any person, or inducing or attempting to induce any person;

(b) soliciting or accepting any order for, or otherwise to—

(i) enter into, or taking an assignment of, the futures contract, whether or not on another person's behalf;

(ii) taking or causes to be taken, action that closes out the futures contract, whether or not on another person's behalf;

(iii) in relation to a futures contract that is an eligible exchange-traded option, a futures option or an agreement prescribed to be a futures contract—

(A) exercising any option or right under the futures contract; or

(B) allowing any option or right under the futures contract to lapse,

whether or not on another person's behalf;

(iv) offering to do any act referred to in paragraph (i), (ii) or (iii); or

(v) inducing or attempting to induce any other person to do any act referred to in paragraph (i), (ii) or (iii).

2.26 "Advising on corporate finance" means giving advice concerning –

(a) compliance with or in respect of securities laws or any guidelines thereunder relating to the raising of funds by any corporation;

(b) compliance with the listing requirements of the stock exchange in relation to the raising of funds or related party transactions; or

(c) arrangement or restructuring of a listed corporation or a subsidiary of the listed corporation of its assets or liabilities;

2.27 "Investment advice" is proposed to mean "carrying on a business of advising others concerning securities or futures contracts; or as part of a business, issues or promulgates analyses or reports concerning securities or futures contracts.

2.28 "Fund management" means undertaking on behalf of any other person or persons, whether on a discretionary authority granted by such person or persons or otherwise, the management of a portfolio of securities or futures contracts.

2.29 "Financial planning" means analysing the financial circumstances of another person and providing a plan to meet that other person's financial needs and objectives, including any investment plan in securities, whether or not a fee is charged in relation thereto. This definition currently exists in the SIA within the term "investment advice".

"Advising on Corporate Finance" as a Separate Regulated Activity

2.30 The phrase "advising on corporate finance" is one of the activities carried out under the rubric of investment advice as the activity can be deemed to be an "advice concerning securities", a limb under the definition of "investment advice".

2.31 The current licensing guidelines on investment advisers makes specific reference to "corporate finance advisory" and have also set out the scope of activities that would fall within corporate finance advisory[3]. However, in order to ensure that there is legal certainty for those who provide corporate finance advisory services in the Malaysian capital markets, it is necessary for the definition of corporate finance to be explicitly provided in the law.

2.32 Further, the licensing guidelines also distinguishes and treats corporate finance advisory activity differently from other activities that make up the scope of activities carried out under the definition of "investment advice" in terms of the person's qualifications and experience.

2.33 The approach of distinguishing corporate finance advisory activities from other investment advice activities is consistent with international trends. Singapore and Hong Kong have adopted this approach in their consolidated securities legislation.

"Financial Planning" as a Separate Regulated Activity

2.34 Under the current framework, financial planning activity is considered to fall within the definition of "investment advice", as an important component of this service involves the provision of advice concerning securities.

2.35 The current licensing guidelines for investment advisers and investment representatives make specific reference to financial planning and provide for distinct pre-requisites in terms of the person's qualifications and minimum paid-up share capital.

[3] These activities are similar to those provided for in the proposed definition for "advising on corporate finance" as set out in paragraph 2.26 above.

2.36 Recommendation 106 of the CMP states that the development of the financial planning industry is to be facilitated as a viable financial planning industry as financial planning is necessary to complement investment management. As part of this effort, the CMP has stated that the licensing requirements imposed on persons carrying out financial planning activities will be reviewed to allow for the explicit recognition of a general class of financial planners.

2.37 Hence, to give effect to the CMP recommendation, the proposed framework regards the activity of financial planning as a separate regulated activity that will enable it to be regulated more efficiently.

2.38 Nevertheless, the regulatory framework for financial planning is fragmented as it involves regulation by two regulators, namely the SC and BNM. The SC's authority emanates from the involvement by financial planners in the provision of investment advice in relation to securities, while BNM's authority arises from the supervision of those providing advice on insurance products. This fragmentation is the result of regulation being based on institutional lines as opposed to being based on product lines. A holistic approach in the regulation of financial planning as an industry is therefore required.

The public's views and comments are sought with respect to:

1. **The issue of a single licence as opposed to multiple licences being issued to the intermediaries as practiced under the current licensing framework.**

2. **The type of activities that have been proposed to be regulated under the proposed single licensing framework.**

3. **The proposal for corporate finance activities to be carved out from the current definition of investment advise and be regulated as a separate activity.**

4. **The proposal for financial planning activities to be carved out from the current definition of investment advise and be regulated as a separate activity.**

Licensing of Representatives / Individuals

2.39 It is proposed that the licensing framework retains the existing requirements for representatives. Hence, an individual who is acting for a dealer or who has the dealer as principal is required by law to be licensed as a representative. This is also the approach that has been adopted both by Hong Kong and Singapore after the consolidation exercise of their respective securities and futures laws.

2.40 However, it is noted that in some jurisdictions such as Australia and the UK, the regulator does not licence individuals. Instead, this places the regulatory burden of ensuring fit and properness of its representatives on the principal.

2.41 In Australia, although the regulator does not licence the representative, the principal is still required to notify the Australian Securities and Investment Commission (ASIC) of the appointment of the representative and cannot appoint a person as a representative if that person is subject to a banning order issued by ASIC[4]. ASIC is also empowered by law to disclose information to the principal, that can assist the principal in determining whether the person the principal is seeking to appoint as its representative is fit and proper.

2.42 The benefit of retaining the licensing requirement for representatives is that those who deal directly with the investing public would be subject to the direct scrutiny of the regulator as to their fit and properness. Removing the requirement would shift the burden of ensuring suitability of its representatives to the principal licence holders.

2.43 It is envisaged that as the capital market develops in sophistication and depth, there will come a time when the industry participants would be able to take over the supervisory role of the regulator. For Malaysia, it is proposed that a gradualist or incremental approach be adopted, i.e. whilst in general, individuals would need to be separately licensed as representatives, for certain identified segments of the financial services sector such as the agency networks of the unit trust industry, the entry into the market would be decided by a self-regulatory organisation (SRO) that is certified by the SC to be able to assume the supervisory role satisfactorily[5].

The public's views and comments are sought with respect to:

5. The proposal for maintaining the existing requirement of licensing representatives under the single licensing framework.

[4] Instances in which banning orders are issued by ASIC are –
- suspension or cancellation of licence;
- non-compliance with general statutory obligations;
- when ASIC has reason to suspect non compliance with general statutory obligations;
- insolvency of the licence holder;
- conviction for fraud;
- non compliance with financial services laws; and
- when ASIC has reason to suspect non-compliance with financial services laws.

[5] Proposed regulatory framework for SROs is discussed in the Consultation Paper No. 2/2006.

Licensing Conditions

2.44 As with the current licensing framework, the proposed framework spells out clearly the SC's power to impose conditions or restrictions on the holders of the CMSL whether such holder is a principal or a representative.

2.45 The SC may impose conditions or restrictions when –

(a) the SC first grants the licence;

(b) the licence is to be renewed; and

(c) the SC suspends a licence.[6]

2.46 When imposing such conditions or restrictions, the SC will have due regard to the risks that the holder of CMSL may pose to the investors and to the market.

2.47 In order to ensure the continued compliance with regulatory requirements, it is proposed that the current practice of annual renewal of the licence is retained under the consolidated legislation.

Fit and Proper Requirements

2.48 Under the IOSCO standards, the minimum entry standards must be satisfied by a person before a person may be approved by the regulator to provide intermediation services. These minimum standards are also commonly referred to as the "fit and proper requirements".

2.49 The fit and proper requirements ensure that only able persons in terms of character, reputation, qualification, experience, ability, financial solvency and financial integrity can provide intermediation services.

2.50 Under the current licensing framework, the fit and proper requirements are applicable to the licence holders such as the dealer, fund manager and investment adviser as well as any person who is a director, chief executive, manager or representative of the licensed person.

2.51 It is proposed that these requirements be also extended to include major shareholders[7] of the licence holder in line with IOSCO principles.

[6] In the case of a suspension, the SC can only impose restrictions on the activities carried out by a licensed person. The new framework enables the SC to suspend a licence in lieu of directly revoking the licence of a licensed person where the SC considers it desirable to do so.

[7] Currently this is imposed via conditions attached to the licence.

2.52 While this is currently already the practice under the existing licensing system, it is implemented as a condition of the licence. In the interests of consistency and transparency, it is proposed that this requirement be made more explicit in the law.

2.53 The proposed framework also incorporates provisions that are designed to protect clients' assets in the event the SC cancels a licence.

2.54 Hence, the following provisions are proposed in order to reflect this objective –

(a) The SC may require the licensed person to transfer to, or to the order of, its client such records relating to client assets or to the affairs of the client held at any time for the client.

(b) The SC may prohibit a licensed person from entering into specified transactions, soliciting business from specified persons, carrying on business in a specified manner, to impose restrictions on dealing with property, and to require the licensed corporation to maintain property in Malaysia or outside, property of specified value and amount that SC feels desirable with a view to ensuring that the licensed person will be able to meet its liabilities.

The public's views and comments are sought with respect to:

6. The extension of the "fit and proper requirements" to major shareholders of a principal licensed holder.

7. The proposal for the proposed single licensing framework to incorporate provisions that strengthen the protection of clients' assets in the event of revocation of a licence.

Oversight of Those who Manage Licensed Corporations

2.55 Intermediaries would normally use an incorporated company as its vehicle to carry on its business activities[8]. The use of a corporate structure to carry out business activities necessitates the appointment of directors and a chief executive officer to oversee the management of the licensed corporation.

2.56 Even though there are no explicit provisions in the securities laws to require directors or chief executives of licensed persons to seek prior approval, they nevertheless are required administratively under the terms and conditions to the

[8] It should however be noted that in the case of financial planning the current licensing guidelines provide that the financial planning business can be carried out by a sole proprietor.

license to seek SC's prior approval for their appointment. In this respect, there are three possible approaches.

2.57 The first approach involves the licensed corporation having to obtain the SC's prior approval before it can appoint a person as its director or CEO. The purpose of this provision is to ensure that only fit and proper persons are appointed to these positions of authority and responsibility within the firm. Under this scheme, the SC would also be empowered to direct a licensed person to remove the director or chief executive where public interest requires such action to be taken.

2.58 A clear set of criteria would also set out the instances where such an officer can be removed. These would include, where the officer –

(a) has wilfully contravened or wilfully caused the license holder to contravene the Act;

(b) has without reasonable excuse failed to enforce compliance with the Act;

(c) has failed to discharge the duties or functions of his office;

(d) is an undischarged bankrupt whether in Malaysia or elsewhere;

(e) has had execution against him in respect of a judgment debt returned unsatisfied in whole or in part;

(f) has, whether in Malaysia or elsewhere, entered into a compromise or scheme of arrangement with his creditors, being a compromise or scheme of arrangement that is still in operation; or

(g) has been convicted, whether in Malaysia or elsewhere, of an offence involving fraud or dishonesty or the conviction for which involved a finding that he acted fraudulently or dishonestly.

2.59 This set of transparent criteria will lend more clarity as to the basis on which unsuitable persons are barred from participating in the management of capital market intermediaries.

2.60 At the same time, the due process requirement would be embedded in the law. Hence, before the SC exercises its power to issue a direction to a licensed company to remove its officer as discussed above, the SC will give the licensed company an opportunity to be heard unless the officer who is directed to be removed is an undischarged bankrupt or has been convicted of an offence involving fraud or dishonesty. This approach is currently used in Singapore.

2.61 The second approach is to adopt the practice in Hong Kong which is that in addition to requiring persons who participate in "regulated activities" to obtain a representative licence, section 125 of its Securities and Futures Ordinance introduces a "responsible officer" concept. Every licensed corporation has to

nominate for the SFC's approval at least two persons as its "responsible officers", responsible for directly supervising the conduct of the "regulated activities" of the licensed corporation. The SFC will not approve a person as a "responsible officer" unless he has the necessary qualifications, experience and authority to discharge his supervisory function. All "responsible officers" are also required to apply for a representative's licence[9]. In contrast with the first approach as discussed in paragraphs 2.55–2.60 above, the Hong Kong approach does not provide SFC with the ability to direct a licensed person to remove a responsible officer.

2.62 The third approach would entail merely strengthening the current fit and proper requirements to ensure that any changes such as those set out in paragraph 2.58 above, would necessitate the licensed person informing the SC as to the change and where necessary withdrawing such person from the management of the corporation. However, should the disqualified person not be removed from office, the SC is now empowered to direct the licensed person to remove the disqualified person.

The public's views and comments are sought with respect to:

8. The proposal that the approach discussed in paragraph 2.62 to be adopted in regard to the assessment of directors and chief executive of licensed intermediaries.

The Principal Holder of CMSL to be a Corporation

2.63 It is proposed that under the new framework for licensing, only corporations will be principal holders of a CMSL. The use of partnerships and sole proprietorships to conduct the business of intermediation services can result in the partners and the owner of the business being exposed to considerable risks of liability. Further, the death of a partner or the owner of the business can also have an effect on the activity of the licensed intermediary to carry on the regulated activity. Hence, the benefits that can be derived from using a corporation to conduct the business of intermediation services outweigh the cost of incorporating a company. In 1988, the corporatisation policy for brokers was ushered in by the Government to ensure that the abovementioned risks are mitigated. Todate financial planners are, however not required to be corporatised in the provision of financial planning services to the public.

[9] Currently in Malaysia, the licensing guidelines for dealers and dealer's representatives require that the executive director for dealing (EDD) should be licensed as a dealer's representative. Apart from the EDD, the guidelines also require the appointment of an executive director of operations (EDO) and executive director of compliance (EDC) but the EDO and EDC are not required to hold a representative's licence.

The public's views and comments are sought with respect to:

9. Whether the principal licence holder, under the proposed single licensing framework, should be a corporation in respect of financial planning activities.

Compensation Arrangements for Investors

Securities and futures contracts

2.64 Currently securities and futures brokers contribute to the Compensation Fund and Fidelity Fund respectively. With the injection of funds into the Compensation Fund in 1998 by the SC and Bursa Malaysia, the fund now stands at over RM300 million. The Fidelity Fund currently stands below RM20 million.

2.65 These funds remain separate as they cover distinct markets with distinct participants and contributors. The levels of risk exposures are also different in these two markets. The recommendation is to keep these funds separate.

Fund management

2.66 Fund managers do not contribute to either of these funds. The only avenue of compensation for clients of fund managers is the deposit of RM150,000 lodged with the SC. Sub-regulation 8(1) of the Securities Industry (Deposit) Regulations 1997 provides that a deposit lodged with the SC shall be applied for the purposes of compensating a person who suffers monetary loss by reason of a defalcation or fraudulent misuse of clients' assets by any director, officer, employee or representative of a dealer or fund manager or the insolvency of a dealer or fund manager. Additionally, fund managers must have a paid up capital of RM2 million and must at all times maintain this amount in shareholders' funds. This is insufficient as fund managers handle hundreds of millions of ringgit in clients' funds. Increasing the deposits may not offer the most optimal solution, as it would not be able to cover clients' risk exposure.

2.67 Consideration should also be given as to whether there is a need to increase the deposit amount according to the size of funds under management. This is similar to the approach adopted by the Securities Investor Protection Corporation (SIPC) in the US, whose membership consists of brokers and dealers. The fund administered by SIPC (SIPC Fund) is made up of assessments collected from SIPC members and interest on investments in US government securities. Additionally, lines of credit may be obtained and the SEC has the authority to lend SIPC up to US$1 billion. The initial assessment on members was one-eighth of 1% of the gross revenues from the securities business of the member for the

year 1969. Thereafter, SIPC may impose such additional assessments on its members as deemed necessary to establish and maintain the fund and to repay SIPC borrowings. These subsequent assessments shall be measured according to the gross revenues from the securities business of a member.

2.68 However, the objective is to protect investors according to their needs, given that clients of fund managers are usually sophisticated investors, they are able to protect themselves better than an individual retail client of a securities broker. In this sense, a sophisticated investor does not need the same level of protection as does the retail investor. Singapore, Hong Kong and Australia in this regard do not require deposits from fund managers.

2.69 Another option considered is the imposition of insurance for intermediaries that handle clients' funds but do not contribute to any compensation fund. Hong Kong only imposes the requirement for insurance on holders of licences which permit securities dealing, futures trading, or securities margin financing. If the holders of such licences are not exchange participants or do not handle client assets, no insurance is required. Singapore does not impose any insurance or deposit requirements on fund managers. It must be noted that the feasibility of such an insurance requirement would depend upon the willingness of insurers to bear such risk, the level of premiums and the willingness of fund managers to undertake the payment of the premium involved.

The public's views and comments are sought with respect to:

10. The adequacy of the deposit requirements imposed on fund managers; and

11. Whether the RM150,000 that is paid as a deposit by fund managers to the SC should be used to obtain insurance coverage for the fund managers' clients.

