

Standards of Qualifying CIS

11 May 2021

Part I

This part prescribes the Qualifications of the CIS Operator, Trustee/ Fund Supervisor/ Independent Oversight Entity, and requirements relating to Approval, Valuation, and Operational Matters

SECTION 1

Qualifications of CIS Operator

Licensing/Registration Requirements

- 1.1 A CIS Operator that intends to offer or manage a Qualifying CIS (assessed pursuant to section 4 below) under “**MEMORANDUM OF UNDERSTANDING ON STREAMLINED AUTHORISATION FRAMEWORK FOR CROSS-BORDER PUBLIC OFFERS OF ASEAN COLLECTIVE INVESTMENT SCHEMES**” must be licensed or registered by its Home Regulator, and the criteria for granting the license or registration to such CIS Operator will include the following requirements, without limitation:
- (a) Readiness of the CIS Operator’s organisational structure and operational system to carry out all required functions; readiness includes having:
 - 1. an organisational structure with clear lines of responsibility;
 - 2. sufficient technical and human resources;
 - 3. an efficient fund management operation system;
 - 4. adequate internal control system;
 - 5. a risk monitoring and management process, including a risk management framework for the assets that they manage, based on the size, complexity and risk of the assets under management;
 - 6. adequate processes for handling customers’ complaints and monitoring of fund distributors;
 - 7. procedures to monitor conflicts of interest and policies on conflict management;
 - 8. procedures to ensure compliance with relevant Laws and Regulations; and
 - (b) The CIS Operator as well as its directors, chief executive officer (CEO), key executive officers¹, fund managers, and substantial shareholders

¹ “**Key executive officers**” refer to head of the departments which are responsible for the core functions of CIS Operator’s organisation; for example, the departments that have responsibility for investment activity/ operation (for e.g. fund management, risk management and monitoring), and compliance.

must be fit and proper. The criteria to assess fit and proper requirements are as follows:

1. honesty and integrity;
2. competency and capability; and
3. financial soundness.

Experience of CIS Operator

1.2 The CIS Operator must meet the track record test by demonstrating to the Home Regulator's satisfaction that:

- (a) for the past 5 years the CIS Operator has been responsible for the operation of CIS that have been regulated in a way that enables the CIS to be offered to the general public in:
 - (i) a jurisdiction that is Signatory to the Framework; or
 - (ii) a jurisdiction that has a regulatory framework applying to CIS that is broadly similar in effectiveness to that of the Home Jurisdiction in the opinion of the Home Regulator, having regard where relevant to the IOSCO principles and assessment methodology relating to CIS; and
- (b) if the CIS Operator has undergone a relevant change of control in the past five years:
 - (i) there has been substantial continuity among the officers and employees of the CIS Operator responsible for making discretionary investment decisions for CIS; and
 - (ii) the decision-making process of the CIS Operator in relation to the operation of CIS has been independent of any person who controls the CIS Operator.

1.3 The CIS Operator may rely on the experience and expertise of its related companies in the operation of CIS provided that the related companies meet the track record test in accordance with this paragraph and having regard to the degree of commonality between the CIS Operator and the related companies concerning:

- (i) decision-making processes;
- (ii) business processes; and
- (iii) personnel.

- 1.4 The CIS Operator, either with or without its related companies, must have assets under management (AUM) of at least USD 350 million globally at the time of application of each Qualifying CIS.

For the avoidance of doubt, AUM would include discretionary funds but exclude property funds or REITs.

- 1.5 For the purposes of paragraphs 1.3 and 1.4, two companies are deemed to be related, where a company –
- (a) is the holding company of another company²;
 - (b) is a subsidiary of another company³; or
 - (c) is a subsidiary of the holding company of another company.

Capital Adequacy

- 1.6 The CIS Operator must maintain shareholders' equity of at least USD 1 million.
- 1.7 Where the CIS Operator has AUM of more than USD 500 million, it must maintain additional capital equivalent to 0.1% of the AUM in excess of USD 500 million. However, the amount of additional capital requirement is capped at USD 20 million.

For the avoidance of doubt, AUM of CIS Operator refers to the sum of the value of –

- (a) the assets of each CIS for the operations of which it is responsible; and
- (b) any other assets for which the CIS Operator performs discretionary investment management on behalf of another person, whether or not this is on a collective basis.

² “**Holding company of another company**” refers to a company of which that last-mentioned company is a subsidiary.

³ “**Subsidiary of another company**” – A company is deemed to be a subsidiary of another company, if :

- (a) the other company –
 - 1. controls more than half of the voting power of the first-mentioned company; or
 - 2. has the capacity to determine the outcome of decisions about the first-mentioned company's financial and operating policies; or
- (b) a company is a subsidiary of any company which is a subsidiary of another company in (a).

- 1.8 The CIS Operator may, in lieu of the additional capital required under paragraph 1.7, procure an equivalent amount of coverage in professional indemnity insurance (PII) if –
- (a) it is satisfied that such PII provides at least the same level of protection to investors when compared to the procurement of the additional capital required; and
 - (b) it is acceptable to Home Regulator to do so.

(Example of capital adequacy: A CIS Operator with AUM of USD 1 billion must have capital of at least USD 1.5 million (i.e. USD 1 million + (USD 1 billion – USD 500 million) x 0.1%). Assuming that the CIS Operator has shareholders’ equity of USD 1.2 million, additional capital or indemnity insurance coverage of USD 0.3 million would be required).

- 1.9 Notwithstanding a CIS Operator’s compliance with paragraphs 1.7 and 1.8, the Home Regulator may impose a condition requiring the CIS Operator to procure a Letter of Responsibility⁴ and/or Letter of Undertaking⁵ from its parent company if the parent company is of satisfactory financial standing.

Roles and Responsibilities/ Legal liabilities

- 1.10 The CIS Operator must carry out the following:
- (a) manage the Qualifying CIS strictly in accordance with the constitutive documents of the Qualifying CIS, Standards of Qualifying CIS, as well as all laws and requirements of the Home Jurisdiction;
 - (b) exercise care and diligence, and act in the best interest of Participants⁶;
 - (c) ensure that all assets of the Qualifying CIS are deposited with an independent custodian;
 - (d) maintain a register of Participants(if applicable);

⁴ **The Letter of Responsibility** is a commitment from the applicant’s parent company that it will maintain adequate oversight over the applicant’s operations, financial position, and compliance with laws, management and other relevant issues.

⁵ **The Letter of Undertaking** sets out the maximum liability of the applicant’s parent in support of any liquidity shortfall or other financial obligations.

⁶ **Participant** means a person who participates in a CIS by way of owning one or more –

- (a) in the case of CIS that has a trust or contractual structure, units in the CIS; or
- (b) in the case of CIS that has a corporate structure, shares in the CIS.

- (e) keep or cause to be kept such books and records as will sufficiently explain the transactions of the Qualifying CIS and all transactions in the Qualifying CIS units or shares;
- (f) prepare all accounts and reports; and arrange for Participants to receive accounts/ reports (if applicable);
- (g) ensure that the units or shares of the Qualifying CIS are correctly valued and priced;
- (h) pay out redemption proceeds within the specified timeframe;
- (i) conduct all transactions with or for the Qualifying CIS at arm's length;
- (j) inform existing Participants of any significant changes to be made to the Framework no later than one month before the change is to take effect; where the change cannot be determined in advance, Participants must be informed as soon as practicable;
- (k) inform the Host Regulator at the point of application for offer and on an on-going basis of any:
 1. disciplinary or enforcement actions against the CIS Operator in any jurisdiction;
 2. conditions imposed by the Home Regulator on the Qualifying CIS or CIS Operator;
 3. suspension, withdrawal or revocation of Approval of the CIS in the Home Jurisdiction as a Qualifying CIS by the Home Regulator;
 4. circumstances which would affect the Home Regulator's assessment of the CIS's suitability to be a Qualifying CIS; or
 5. winding up of a Qualifying CIS; and
- (l) in addition to the requirements in (a) – (k) above, the CIS Operator must be subject to the requirements in its Home Jurisdiction.

1.11 A CIS Operator which participates in this Framework is deemed to have agreed that the home and host regulators may share information relating to the CIS Operator and the Qualifying CIS with one another as may be required under the Memorandum of Understanding for the purposes of the Framework, to the extent permitted by and subject to the applicable Laws and Regulations of the respective jurisdictions.

Qualifications of Personnel of the CIS Operator

- 1.12 The Chief Executive Officer (CEO), or equivalent, must have a minimum of 10 years' experience in financial or capital markets;
- 1.13 All members of the Board of Directors (BOD) must have a minimum of 5 years' experience, as follows —
 - (a) for Executive Directors, or equivalent, such minimum of 5 years' experience must be in financial or capital markets; and
 - (b) for Non-executive Directors, or equivalent, such minimum of 5 years' experience may be in any other field;
- 1.14 Key executive officers must have either--
 - (a) at least a Bachelor's degree, or equivalent, and a minimum of 3 years (in the past 5 years) experience in financial/capital markets; or
 - (b) a minimum of 5 years (in the past 7 years) experience in financial/capital markets;
- 1.15 Fund managers, who are responsible for making investment decisions for Qualifying CIS, must have either —
 - (a) at least a Bachelor's degree or equivalent, professional qualifications or passed applicable exams, and at least 3 years (in the past 5 years) experience in fund management; or
 - (b) professional qualifications or passed applicable exams, and at least 5 years (in the past 7 years) experience in fund management.

Delegation/ Outsourcing

- 1.16 A CIS Operator may delegate any function, subject to the following conditions:
 - (a) the CIS Operator must remain responsible for any delegated functions and must not delegate its function to the extent that it becomes a letter-box;
 - (b) the CIS Operator must ensure that the delegate employs a high standard of care when performing the delegated function, as if such function is performed by the CIS Operator;

- (c) the CIS Operator must have in place suitable processes to monitor and control the activities of the delegate and evaluate the performance of the delegate; and
 - (d) the CIS Operator must ensure that it or its delegate is able to provide the Home Regulator ready access to information related to the delegated functions.
- 1.17 The function of making discretionary investment decisions for the Qualifying CIS may only be delegated or sub-delegated to an entity (a qualifying delegate) that is licensed, registered, authorised, or regulated to carry out fund management activities by
- (a) a Signatory; or
 - (b) an acceptable financial supervisory authority that has a regulatory framework applying to CIS that is broadly similar in effectiveness to that of the Home Jurisdiction in the opinion of the Home Regulator, having regard where relevant to the IOSCO principles and IOSCO assessment methodology relating to CIS.
- 1.18 If the CIS Operator of a Qualifying CIS delegates or sub-delegate the function of making discretionary investment decisions, the CIS Operator must ensure that at all times each of the qualifying delegate has one or more fund managers, each with at least either:
- (a) at least a Bachelor's degree or equivalent, professional qualifications or passed applicable exams, and at least 3 years (in the past 5 years) experience in fund management; or
 - (b) professional qualifications or passed applicable exams, and at least 5 years (in the past 7 years) experience in fund management.

On-going supervision of CIS Operator or Qualifying CIS

- 1.19 The CIS Operator or Qualifying CIS, as the case may be, must be subject to ongoing supervision by its Home Regulator. Such supervision includes:
- (a) Off-site monitoring through the analysis of periodic reports or portfolio monitoring system;
 - (b) On-site examinations carried out on a routine or risk assessment basis; and
 - (c) Investigative activities in cases of suspected breaches by the CIS Operator or Qualifying CIS, as the case may be.

1.20 The CIS Operator or Qualifying CIS, as the case may be, must:

- (a) appoint an independent reviewer permitted under Table 1 below to conduct compliance review of the operation of the Qualifying CIS in accordance with this paragraph in relation to each period for which it prepares, or is required to prepare, a financial statement (the review period); and
- (b) provide the independent reviewer’s report to, where applicable, the trustee/ fund supervisor/ Independent Oversight Entity of the relevant Qualifying CIS, the Home Regulator, and the Host Regulator. The report shall minimally state the following information –
 - (i) whether any matter has come to the attention of the independent reviewer that causes the independent reviewer to believe that it is likely that the Qualifying CIS was not operated in compliance with the Standards of Qualifying CIS during the review period in all respects that may be material to the persons to whom it is addressed;
 - (ii) details of matters which caused the independent reviewer to consider that the Qualifying CIS during the review period did not comply with, or is likely not to have complied with the Standards of Qualifying CIS; and
 - (iii) relevant information which forms the basis for the statements made in (i) and (ii) above.

Table 1: Entity permitted to conduct independent reviews

Home Regulator	Entity that can conduct independent reviews
Malaysia	A chartered accountant who is registered with the Malaysian Institute of Accountants.
Singapore	A public accountant who is registered or deemed to be registered under the Accountants Act of Singapore or a trustee approved under the Securities and Futures Act.
Thailand	An auditor as defined by the Securities and Exchange Commission or the mutual fund supervisor appointed for the mutual fund under the Securities and Exchange Act, B.E. 2535.
Philippines	An independent accountant or auditor duly registered with the Board of Accountancy of the Professional Regulation Commission of the Philippines and accredited by the Securities and Exchange Commission.

1.21 Where the Home Regulator has notified the Qualifying CIS Operator, Qualifying CIS, as the case may be, and each Host Regulator that the Home Regulator has taken or will be taking actions to check compliance of the Qualifying CIS and its operator during a particular review period or on an on-going basis, paragraph 1.20 does not apply to a Qualifying CIS or a Qualifying CIS Operator for a particular review period or for a period as may specified in the notice.

SECTION 1A

Qualifying CIS with a Corporate Structure

Roles and Responsibilities

- 1A.1 The Qualifying CIS and its Board of Directors must carry out the following:
- (a) exercise care and diligence, and act in the best interests of Participants;
 - (b) appoint a qualified CIS Operator with appropriate operational system and procedures to carry out all of its required functions including those enumerated under paragraph 1.10, Section 1 of Part I of the Standards of Qualifying CIS as well as the protection of confidentiality of fund information and that would conduct all transactions involving the Qualifying CIS at arm's length;
 - (c) appoint an Independent Oversight Entity to oversee the transactions and functions of the CIS Operator;
 - (d) oversee and ensure that service providers of the Qualifying CIS operate in compliance with applicable laws, regulations, Standards of Qualifying CIS or rules imposed in the Home Jurisdiction or the Host Jurisdiction; and
 - (e) ensure avoidance of conflicts of interests, and where the interests of any of the service providers may conflict with the interests of the Participants, to minimise, manage and disclose such transactions.
- 1A.2 In addition, the following provisions under Part I of these Standards shall also apply to a Qualifying CIS with a corporate structure as they apply to a CIS Operator:
- (a) Paragraph 1.11
 - (b) Paragraph 7.5
 - (c) Paragraph 7.6
 - (d) Paragraph 8.3

SECTION 2

Qualifications of Trustee / Fund supervisor / Independent Oversight Entity

Requirements on Trustee / Fund supervisor/Independent Oversight Entity

A Qualifying CIS must appoint (i) a trustee / fund supervisor or (ii) an Independent Oversight Entity (IOE) as set out in Table 2. The trustee / fund supervisor or IOE must comply with the Standards of Qualifying CIS, and carry out the relevant roles and responsibilities set out in the Standards of Qualifying CIS. In this section, paragraphs 2.1 to 2.6 will apply to a trustee / fund supervisor, and paragraphs 2.7 to 2.10 will apply to an IOE.

Table 2: Entity permitted to be a trustee/ fund supervisor/ IOE for a Qualifying CIS

Home Regulator	Entity that can be a trustee/ fund supervisor/ IOE
Malaysia	An approved trustee under the Capital Markets and Services Act 2007 of an authorised or approved CIS.
Singapore	An approved trustee under the Securities and Futures Act of Singapore of an authorised CIS
Thailand	In case of a scheme established as a mutual fund, the mutual fund supervisor appointed for the mutual fund under the Securities and Exchange Act, B.E. 2535.
Philippines	An Independent Oversight Entity appointed and qualified under SEC Memorandum Circular No. 21, Series of 2019

- 2.1 The trustee / fund supervisor must be domiciled and regulated in the same jurisdiction as that of the Qualifying CIS it oversees and must be a permitted trustee/fund supervisor as prescribed in Table 2 below;
- 2.2 The trustee / fund supervisor must be an institution that is subject to prudential regulation and on-going supervision; and

- 2.3 The trustee / fund supervisor must satisfy the following minimum criteria —
- (a) be in sound financial position;
 - (b) the trustee / fund supervisor as well as its directors and key executive officers must be fit and proper;
 - (c) have a sufficient number of qualified personnel;
 - (d) have an appropriate operational system and procedures to carry out all of its required functions, which include:
 - 1. safekeeping of the assets of the Qualifying CIS;
 - 2. where the trustee / fund supervisor is the custodian, segregation of the assets of the Qualifying CIS from the:
 - i. assets of the trustee / fund supervisor; and
 - ii. assets of the trustee / fund supervisor's other clients,such that there is adequate protection from losses by or insolvency of the trustee / fund supervisor;
 - 3. an internal control system to prevent unauthorised use of the assets of the Qualifying CIS;
 - 4. adequate monitoring of all deposits and withdrawal of the assets of the Qualifying CIS;
 - 5. preparation of the books on fund assets (where applicable);
 - 6. avoidance of conflicts of interest;
 - 7. protection of confidentiality of fund information;
 - 8. oversight of the subscription and redemption of units or shares in the Qualifying CIS; and
 - 9. oversight of the CIS Operator to ensure that the CIS Operator complies with the constitutive documents of the Qualifying CIS, Standards of Qualifying CIS, as well as rules and requirements of the Home Jurisdiction.

For the avoidance of doubt, the trustee / fund supervisor must be required to comply with, in addition to the above, any other requirements in its Home Jurisdiction.

Capital Adequacy

- 2.4 The trustee / fund supervisor must comply with the Base Capital Requirement (BCR) as stipulated by its lead regulator's licensing requirement.

(For example, Thai fund supervisor which are commercial banks must maintain capital adequacy and capital reserve as specified by its lead regulator's rules, the Bank of Thailand)

Roles and Responsibilities/ Legal liabilities

- 2.5 The trustee / fund supervisor must carry out the following:

- (a) act in the best interests of the Participants;
- (b) take into custody or control all the assets of the Qualifying CIS;
- (c) prepare deposit and payment accounts of the fund assets (where applicable);
- (d) exercise care and diligence when monitoring the functions of the CIS Operator;
- (e) notify the Home Regulator of any breach by the CIS Operator as soon as practicable, in any case no later than 5 business days from the day the trustee / fund supervisor becomes aware of the breach;
- (f) maintain a register of Participants (if applicable); and
- (g) prepare all accounts and reports; and arrange for participants to receive accounts / report (if applicable).

For the avoidance of doubt, the trustee / fund supervisor must be required to carry out, in addition to the above, any other requirements in its Home Jurisdiction.

Independence

- 2.6 The trustee / fund supervisor must be independent from the CIS Operator. A trustee / fund supervisor will not be considered to be independent if —

- (a) It holds directly or indirectly 10% or more of the total number of issued shares in the CIS Operator or vice versa;

- (b) There is a common shareholder between the trustee / fund supervisor and the CIS Operator, and the common shareholder holds directly or indirectly 10% or more of the total number of issued share capital of the trustee / fund supervisor and the CIS Operator respectively; or
- (c) The trustee / fund supervisor has one or more directors who is or are also ultimately responsible for the CIS Operator.

Requirements on an IOE

- 2.7 The IOE must be based in the same jurisdiction as that of the Qualifying CIS and must be permitted by the Home Regulator to be an IOE of a Qualifying CIS.
- 2.8 The IOE must be supervised by the Home Regulator in relation to its compliance with the Standards of Qualifying CIS.
- 2.9 The IOE must satisfy the following minimum criteria-
 - (a) have a sufficient number of qualified personnel, who are fit and proper; and
 - (b) have appropriate procedures to carry out all its required functions under paragraph 2.10.

Roles and Responsibilities/ Legal liabilities of an IOE

- 2.10 The IOE must carry out the following:
 - (a) exercise care and diligence when monitoring the transactions and functions of the CIS Operator;
 - (b) oversee the transactions and functions of the CIS Operator to ensure compliance with the Home Regulations and the Standards of Qualifying CIS;
 - (c) oversee the subscription and redemption of shares in the Qualifying CIS and to approve the request of the CIS Operator in case of suspension of redemption of shares whenever necessary for the protection of the Participants;
 - (d) oversee the activities of the CIS Operator to ensure that it complies with the rules on investment restrictions/limitations, liquidity requirements and other regulations involving the operationalization of the investment objectives, investment policy or strategy of the Qualifying CIS;

- (e) oversee the transactions of the CIS Operator to ensure that delegation will not result in unnecessary fees to be paid by the Qualifying CIS;
- (f) if, in the reasonable opinion of the IOE, the CIS Operator has not complied with any of the laws, rules or regulations applicable to the CIS Operator and/or it failed to report to the Home Regulator said non-compliance, notify the Home Regulator of its opinion, including particulars of the non-compliance, not later than five (5) business days after forming the opinion or upon knowledge of the non-compliance. It must also notify, without delay, the members of the Board of Directors of the Qualifying CIS of its opinion so that the Board can apprise the CIS Operator of the said non-compliance and address any resulting breach;
- (g) report to the Home Regulator, any act of the CIS Operator which in its opinion may be detrimental to the interests of the Participants even if the said act is not in violation of any law, rule or regulation, not later than five (5) business days from knowledge thereof; and
- (h) if necessary, recommend to the Board of Directors of the Qualifying CIS that the CIS Operator be removed due to its inability to fulfill its functions.

SECTION 3

Custody of Fund Assets

Segregation of Fund Assets

3.1 The assets of a Qualifying CIS must be segregated from the custodian's:

- (a) assets; and
- (b) other clients' assets

such that there is adequate protection from losses by or insolvency of the custodian.

3.2 Where the trustee / fund supervisor / IOE is not the custodian for Qualifying CIS⁷, the custodian must be an institution that is subject to prudential regulation and on-going supervision, and independent from CIS Operator.

Delegation / Outsourcing

3.3 Where the custodian of Qualifying CIS delegates its custody function to a sub-custodian:

- (a) the sub-custodian must be licensed/ approved/ regulated by a competent regulatory authority in its Home Jurisdiction;
- (b) the delegating custodian remains responsible for the actions or omissions of any party the function is delegated to; and
- (c) the delegating custodian must have adequate procedures to monitor its delegate.

⁷ "Custodian for Qualifying CIS" includes an entity to which the assets of a Qualifying CIS constituted under as a corporate structure are entrusted for safekeeping.

SECTION 4

Assessment of Qualifying CIS

- 4.1 A CIS must be assessed as suitable to be a Qualifying CIS by the Home Regulator before it can be offered cross-border in other signatory jurisdictions under the **“MEMORANDUM OF UNDERSTANDING ON STREAMLINED AUTHORISATION FRAMEWORK FOR CROSS-BORDER PUBLIC OFFERS OF ASEAN COLLECTIVE INVESTMENT SCHEMES”**. The Home Regulator will not entertain any application for exemption from the Standards of Qualifying CIS.

The CIS will be assessed on its compliance with applicable Laws and Regulations of the Home Jurisdiction as well the Standards of Qualifying CIS. In reviewing an application from a CIS to be a Qualifying CIS, the Home Regulator will consider, at a minimum, whether:

- (a) the CIS, CIS Operator and the trustee / fund supervisor / IOE satisfy the requirements specified in sections 1, 1A (where applicable), and 2;
- (b) the custody of fund assets satisfies the requirements specified in section 3; and
- (c) the following criteria are satisfied--
 - 1. The Qualifying CIS complies with the Product Restrictions of Qualifying CIS specified in Part II;
 - 2. The Qualifying CIS does not name or describe itself as “capital guaranteed”, “capital protected”, “principal protected”, “real estate investment trust” or “REIT”;
 - 3. The Qualifying CIS should not charge performance fees; and
 - 4. The following matters meet applicable requirements of the Home jurisdictions:
 - i. disclosure of risk factors;
 - ii. payoff structure and distribution policy;
 - iii. fees;
 - iv. pricing method/ methodology of asset valuation;
 - v. delegation of fund management or custody of assets (if any);

- vi. redemption policy; and
- vii. conflicts of interest.

- 4.2 The Home Regulator may reject a CIS's application to be Qualifying CIS, or suspend, or revoke a CIS's status as a Qualifying CIS if—
- (a) The CIS Operator, Qualifying CIS, or CIS applying for Qualifying CIS, as the case may be, submits or has been found to have submitted false or misleading information to either the Home Regulator or Host Regulator;
 - (b) The CIS Operator, Qualifying CIS, or CIS applying for Qualifying CIS, as the case may be, misrepresents to or has been found to have misrepresented to; defrauds or has been found to have defrauded investors;
 - (c) The CIS Operator, Qualifying CIS, or CIS applying for Qualifying CIS, as the case may be, the trustee / fund supervisor or IOE of the Qualifying CIS, contravenes or has been found to have contravened any obligations or provisions in the constitutive documents that are applicable to them;
 - (d) The CIS Operator, Qualifying CIS, or CIS applying for Qualifying CIS, as the case may be, the trustee / fund supervisor or IOE of the Qualifying CIS, fails or has been found to have failed to comply with any resolution passed by Participants; or
 - (e) The CIS Operator, Qualifying CIS, or CIS applying for Qualifying CIS, as the case may be, contravenes or has been found to have contravened any laws, regulations, Standards of Qualifying CIS, or administrative provisions imposed in the Home jurisdiction or the Host jurisdiction.
- 4.3 The Host Regulator may refuse to Approve, a Qualifying CIS for public offer in the Host Jurisdiction or may suspend, or revoke the Approval of a Qualifying CIS for public offer in the Host Jurisdiction in the circumstances stated in 4.2(a) to (e).

SECTION 5

Valuation Requirement

The requirements set out in this section are to be complied with in addition to the Home Regulator's valuation requirements.

Calculation and Disclosure of Net Asset Value (NAV)

- 5.1 The CIS Operator or trustee / fund supervisor must ensure that –
- (a) the NAV of the Qualifying CIS is calculated on a consistent basis; and
 - (b) the NAV is calculated and published at least every dealing day and that the published NAV is readily accessible by investors in the Host Jurisdiction.

Pricing of units or shares

- 5.2 The units or shares in a Qualifying CIS should be issued, redeemed or repurchased at a price arrived at by dividing the Qualifying CIS's NAV by the number of units or shares outstanding. The price of units or shares may be adjusted by adding or subtracting, as the case may be, fees and charges, in compliance with the relevant provisions in the Qualifying CIS's prospectus or trust deed.

Valuation of the fund assets

- 5.3 The CIS Operator must ensure that the valuation of assets of a Qualifying CIS is consistently applied and leads to objective and independently verifiable valuations;
- 5.4 The value of the assets of a Qualifying CIS should be determined –
- (a) in the case of quoted investments, based on the official closing price or last known transacted price on the organised market on which the investment is quoted; and
 - (b) in the case of unquoted investments, or quoted investments where the transacted prices are not representative or not available to the market, based on fair value;

- 5.5 Amortised cost accounting is permitted for money market instruments with 90 days remaining to maturity. However, constant net asset value money market funds (C-NAV MMFs)⁸ are not permitted;
- 5.6 For the avoidance of doubt, the value of the assets of a Qualifying CIS may not be determined using methods other than those specified in 5.4 and 5.5; and
- 5.7 In determining the fair value of the investments as required under paragraph 5.4 (b), the CIS Operator must –
- (a) exercise due care and act in good faith;
 - (b) have reference to the price that the Qualifying CIS would reasonably expect to receive upon the sale of the investment at the time the fair value is determined; and
 - (c) document the basis and approach for determining the fair value.

Requirement for an Independent Party for Valuations and NAV Calculation

- 5.8 An independent party should –
- (a) determine the valuations of investments of the Qualifying CIS; and
 - (b) calculate or cross-check NAV every dealing day.
- 5.9 For the avoidance of doubt, such an independent party may be an external auditor, a trustee / fund supervisor / IOE, or a unit within the CIS Operator which is independent from the fund management function.

Valuation Errors/ Incorrect Pricing

- 5.10 Where a valuation error / incorrect pricing occurs, the CIS Operator must –
- (a) notify both the Home Regulator and the trustee / fund supervisor / IOE, stating:
 - 1. the reasons for the error; and

⁸ Constant net asset value money market fund (C-NAV MMFs) i.e. money market fund that seek to maintain unchanging face value NAV, such as \$1 / unit or shares

2. the measures that the CIS Operator will take to prevent a recurrence of such incidents;

(b) perform a revised valuation to correct the valuation error; and

(c) compensate:

1. affected participants and notify them of the compensation made; and
2. the scheme for any losses incurred as a result of the valuation error,

The aforesaid compensation in (c) must be made in compliance with the rules specified by the Home Regulator.

5.11 Where the valuation error is due to the CIS Operator's fault, the CIS Operator should not pay or cause to be paid from the Qualifying CIS any expenses incurred as a result of effecting compensation for a valuation error.

SECTION 6

Redemption of units or shares

- 6.1 Investors in the Host Jurisdiction must receive their redemption payment within 7 business days in Home Jurisdiction.
- 6.2 The CIS Operator must deal in units or shares of a Qualifying CIS at least once a month.
- 6.3 The CIS Operator may suspend dealings in units or shares of a Qualifying CIS when:
 - (a) dealings in a material portion of the assets of the Qualifying CIS are restricted or suspended, provided that the trustee / fund supervisor / IOE is consulted;
 - (b) it is not in the best interests of the Participants to liquidate a material portion of the assets of the Qualifying CIS, provided that the trustee / fund supervisor's approval / IOE is obtained;
 - (c) the market value or fair value of a material portion of the assets of the Qualifying CIS cannot be determined, provided that the trustee / fund supervisor's approval / IOE is obtained;
 - (d) instructed by the Home Regulator in the interest of protecting the rights of Participants; or
 - (e) under exceptional circumstances set out in the trust deed / constitutive document, the CIS Operator has determined that dealing in units or shares of a Qualifying CIS is not in the best interests of the Participants, provided that trustee/fund supervisor's approval / IOE is obtained.
- 6.4 The CIS Operator will notify the Home and Host Regulators when dealing in units or shares of the Qualifying CIS is suspended, stating the reasons for the suspension.
- 6.5 The CIS Operator or the trustee / fund supervisor will notify the Home and Host Regulators when dealing in units or shares of the Qualifying CIS is resumed.

SECTION 7

Investor Protection

Investors' right

- 7.1 The trust deed / constitutive document of a Qualifying CIS should contain a provision that limits the liability of the Participants to their investments in the Qualifying CIS.

Amendment of trust deed / constitutive document

- 7.2 Any material change to the trust deed / constitutive document of a Qualifying CIS must be subject to Participants' approval.
- 7.3 Any change to the trust deed / constitutive document of a Qualifying CIS that is:
- (a) non-material;
 - (b) beneficial to the interests of Participants; or
 - (c) made for compliance with any applicable law and regulation,
- must be certified by the trustee / fund supervisor / IOE, but need not be subject to Participants' approval.

Measure to minimize Conflicts of Interest

- 7.4 The CIS Operator must act in the best interest of Participants and accord fair treatment to all Participants;
- 7.5 The CIS Operator must minimise, manage, and disclose transactions where the interests of the CIS Operator may conflict with the interests of Participants;
- Such transactions would include, among others, transactions with affiliates of the CIS Operator, proprietary trading and staff dealing;
- 7.6 The CIS Operator is prohibited from investing the assets of an Qualifying CIS in its own securities or those of its related companies unless the securities are constituents of the Qualifying CIS's reference benchmark that complies with Section 2 paragraph 5(c) of the Product Restrictions of Qualifying CIS specified in Part II; and
- 7.7 The CIS Operator must not make payments out of the assets of a Qualifying CIS for the purpose of marketing such Qualifying CIS.

SECTION 8

Cross-Border aspects and others

The offer of a Qualifying CIS cross-border

- 8.1 The offer of a Qualifying CIS to the general public in a Host Jurisdiction must be done through locally licensed or regulated intermediaries in that Host Jurisdiction and shall, where applicable, be subject to the rules specified by the Host Regulator, including:
- (a) licensing requirements for marketing and distribution of the Qualifying CIS, providing financial advice, and/or any associated obligations;
 - (b) offering agreements including the payment of commissions by a Qualifying CIS or the Qualifying CIS Operator to local intermediaries;
 - (c) listing or quotation on financial markets;
 - (d) advertising of Qualifying CIS;
 - (e) offering Qualifying CIS to investors in the Host Jurisdiction
 - (f) communication with investors or prospective investors (including misleading and deceptive conduct in relation to such communication); and
 - (g) the cap on total expense ratio as set out in Annex B.

Disclosure

- 8.2 Disclosure and periodic reporting requirements, such as prospectus and other ongoing disclosure obligations, for a Qualifying CIS are subject to the Host Regulator's requirements. These include:
- (a) point of sale disclosure relating to the product (for example, prospectuses and product highlight sheets) and any requirements to update that disclosure or provide continuous disclosure (for example, of significant changes);
 - (b) any requirements to respond to requests for information from Participants or prospective Participants (for example, to provide a facility to enable confirmation that an investment has been accepted);
 - (c) disclosure relating to the Qualifying CIS, other than information to be included in financial statements and audit report, for example, disclosure on portfolio holdings;
 - (d) periodic reporting relating specifically to the Participants' interests or former Participants' interests in the Qualifying CIS including matters affecting the taxation position of Participants; and

- (e) any requirements to provide consolidations or copies of documents or translated copies of documents, including constituent documents, financial statements or reports and, registers of Participants (but not relating to the content or manner of keeping those documents unless otherwise provided in the Standards of Qualifying CIS).

Obligations of the CIS Operator

8.3 The Qualifying CIS Operator must be able to:

- (a) provide the document from the Home Regulator affirming that
 1. the Qualifying CIS has been Approved for public offer in the Home Jurisdiction, and
 2. the Home Regulator has no objections to the CIS being deemed as a Qualifying CIS; and
- (b) demonstrate that the public offer of the Qualifying CIS in the Home Jurisdiction is bona fide.

8.4 The Qualifying CIS Operator must use its best efforts to provide, without prior request, the Home Regulator and the Host Regulator with any information that it considers to be of assistance to the Home Regulator and the Host Regulator. In particular, the CIS Operator must inform the Home Regulator and the Host Regulator in advance (where practicable) or as soon as possible thereafter, of:

- (a) any material event that could adversely impact a Qualifying CIS or Qualifying CIS Operator. Such events include known changes in the operating environment, operations, financial resources, management, or systems and control of a Qualifying CIS or Qualifying CIS Operator;
- (b) any regulatory changes that may have a significant impact on the operations or activities of a Qualifying CIS or a Qualifying CIS Operator; and
- (c) any enforcement or regulatory action or sanction that has been or may be taken by the Home Regulator or Host Regulator, including the revocation, suspension of relevant licenses, the Approval, concerning a Qualifying CIS, and the licensing or registering concerning a Qualifying CIS Operator.

8.5 The Qualifying CIS Operator or Qualifying CIS, as the case may be, must undertake to submit to the non-exclusive jurisdiction of the Host Jurisdiction's courts, and its constitution must not contain any provisions that exclude the Host Jurisdiction's courts from entertaining an action or legal proceedings concerning the Qualifying CIS.

Part II

This part prescribes the Product Restrictions of Qualifying CIS

SECTION 1

Types of eligible assets

1. The Qualifying CIS's underlying investments may only consist of the following assets (collectively, the "eligible assets"):
 - (a) transferable securities;
 - (b) money market instruments;
 - (c) deposits;
 - (d) units or shares in other CIS; and
 - (e) financial derivatives.

For the avoidance of doubt, a Qualifying CIS must not engage in non-permissible activities such as securities lending, repurchase transactions, and direct lending of monies.

2. "**Transferable securities**" refer to:
 - (a) shares and other securities equivalent to shares; and
 - (b) bonds and other forms of securitised debt;but do not include money market instruments or any security the title to which can be transferred only with the consent of a third party.
3. Transferable securities and money market instruments held by a Qualifying CIS must be dealt in on an organised market as defined in clause 4 of Section 1. If any of such instruments are not dealt in such market, the Qualifying CIS may hold those instruments, subject to the investment limit stipulated in clause 7 of Section 3.
4. "**Organised market**" refers to an exchange, government securities market or an over-the-counter market:
 - (a) that is regulated by the relevant competent regulatory authority of that jurisdiction;
 - (b) that is of good repute;
 - (c) that is open to the public or a substantial number of market Participants; and
 - (d) on which financial instruments are regularly traded.

5. “**Deposits**” refer to deposits placed with deposit-taking institutions that are either banks or finance companies licensed for accepting deposits and subject to prudential rules or other relevant laws.

6. Unless specified otherwise, all credit ratings referred to in this document refer to those issued by Fitch, Moody’s or Standard and Poor’s. References to “investment grade” are defined as a rating falling within the top 4 long-term credit ratings or the top 3 short-term credit ratings provided on an international scale. For the avoidance of doubt, a rating based on an ASEAN, national or local rating scale will not be considered unless specifically stipulated otherwise.

SECTION 2

Characteristics of eligible assets

1. **Transferable securities** must meet the following requirements:
 - (a) the investment must not expose the Qualifying CIS to a loss in excess of the amount paid for it;
 - (b) the investment must be adequately liquid and marketable in order to meet the redemption requests;
 - (c) there is appropriate information available on the investment or where relevant, on the portfolio such that:
 1. in the case of transferable securities dealt in on an organised market, the information is accurate, regularly disclosed, available to the public, and sufficient to analyse the investment; and
 2. in the case of transferable securities not dealt in on an organised market, the information is accurate, regularly disclosed, accessible by CIS Operators, and sufficient to analyse the investment;
 - (d) the investment must be subject to reliable and verifiable valuation where securities:
 1. dealt in on an organised market must be subject to daily valuation that is reliable and based on either market prices or valuations that are made independently from the issuer;
 2. not dealt in on an organised market must be subject to periodic valuations that are based on information obtained from the issuer or competent investment research;
 - (e) the investment is negotiable;
 - (f) the investment must be issued and offered in;
 1. any jurisdictions where the securities regulator is an ordinary or associate member of the International Organisation of Securities Commission (IOSCO) and, if the investment is a listed security, the investment must be traded in an exchange that is a member of World Federations of Exchange (WFE); or
 2. ASEAN jurisdictions; and
 - (g) Notwithstanding (a) – (f) above, transferable securities that a Qualifying CIS is allowed to invest in must not include regulatory capital instruments under Basel III, which contain provisions of loss absorbency at the point of non-viability, such as contingent convertibles (Co-Cos). For the avoidance of doubt, preference shares are permissible investments.

2. **Money market instruments** must meet the following requirements:

- (a) the investment is normally dealt in on the money market;
- (b) the investment:
 - 1. has a maturity at issuance of up to and including 397 days;
 - 2. has a residual maturity of up to and including 397 days; or
 - 3. undergoes regular yield adjustments that are in line with money market conditions at least once every 397 days;
- (c) can be sold at limited cost in an adequately short time frame based on ordinary market conditions; and

Guidance

An adequately short time frame refers to the ability to repurchase, redeem, or sell within a short period of time, at limited cost in terms of low fees or bid-offer spread, and with very short settlement timeframe.

- (d) the value can be verified based on either market data or valuation models.

3. **Deposits** must meet the following requirements:

- (a) be placed with deposit-taking institutions;
- (b) be repayable on demand or has the right to be withdrawn; and
- (c) mature within 12 months.

4. **Units or shares of other CIS** must meet the following requirements:

The investment must be in units or shares of:

- (a) a Qualifying CIS; or
- (b) a non-Qualifying CIS authorised or recognised for public offer in a signatory country and/or Undertaking for Collective Investment in Transferable Securities (UCITS) constituted in jurisdictions as acceptable to the Signatories provided that:
 - 1. the level of protection for Participants of the non-Qualifying CIS is at least equivalent to that provided for Participants in a Qualifying CIS;

Guidance

In assessing whether there is equivalent protection for Participants, the CIS Operator should invest in units or shares of other CIS from countries that either:

(1) have been assessed by World Bank / IMF at least “broadly implemented” on the principles relevant to CIS⁹; or, (2) does not comply with (1) but the Home Regulator of the Qualifying CIS is satisfied with the relevant reason / explanation on the weak points and how equivalence of protection can still be achieved.

2. semi-annual and annual reports are published by the non-Qualifying CIS;

Guidance

For avoidance of doubt, where quarterly reports are prepared, quarter 1 and 2 report is acceptable as semi-annual report.

3. the investment policy of the non-Qualifying CIS is such that the:
 - A. invested assets are similar to the types and categories that a Qualifying CIS may invest in and the non-Qualifying CIS is subject to investment limits that are in line with those applicable to a Qualifying CIS; or
 - B. invested assets are real estate and/or real estate-related, provided that the units or shares of the non-Qualifying CIS are listed for quotation and traded on an organised exchange in a Signatory country.

5. Financial derivatives must meet the following requirements:

- (a) the investment must be dealt in:
 1. on an exchange; or
 2. over-the-counter (“OTC financial derivative”) provided that:
 - A. the counterparty is a financial institution subject to prudential supervision, and approved by the relevant authority in its Home Jurisdiction;
 - B. it is subject to reliable and daily valuations that are based on:
 1. up-to-date market values, which do not rely only on market quotations by the counterparty; or
 2. pricing models based on an adequate and generally accepted practice methodology and where the values are subject to verifications on the daily basis and the pricing models are subject to verifications at an appropriate frequency by either:

⁹ IOSCO Principles relating to CIS are: (a) Principle 24 (formerly Principle 17) - The regulatory system should set the standards for the eligibility, governance, organisation and operational conduct of those who wish to market or operate a CIS; (b) Principle 25 (formerly Principle 18) - The regulatory system should provide for rules governing the legal form and the structure of CIS and the segregation and protection of client assets; (c) Principle 26 (formerly Principle 19) - Regulation should require disclosure, as set forth under the principles for issuers, which is necessary to evaluate the suitability of a CIS for a particular investor and the value of the investor’s interest in the CIS; (d) Principle 27 (formerly Principle 20) - Regulation should ensure that there is a proper and disclosed basis for asset valuation and the pricing and the redemption of units or shares in a CIS. Note that these principles may be amended from time to time and the amended principles shall supersede the contents provided herewith.

- (A) an independent third party; or
 - (B) a unit within the CIS Operator group that is independent from the one in charge of managing the assets; and
 - C. it can be sold, liquidated or closed by an offsetting transaction at any time at its fair value.
- (b) the underlying must consist of:
- 1. eligible assets;
 - 2. financial indices;
 - 3. foreign exchange rates / currencies;
 - 4. interest rates; or
 - 5. a rate of inflation calculated, endorsed or determined by a government or government agency;
- (c) where the underlying is a financial index, the index must satisfy the following requirements:
- 1. comprises eligible assets and commodities;
 - 2. be diversified such that the maximum weight per constituent does not exceed 20% of index;
 - 3. be developed by an independent and reputable agency, and based on a recognised and accepted methodology;
 - 4. represents an adequate benchmark for the market and is widely accepted in international financial markets;
 - 5. index value is published daily through media, which disseminates information in a timely manner and is accessible either publicly or on a subscription basis; and
 - 6. information on the index is published and readily accessible.

Guidance

Information on the index includes the index composition and methodologies used to: construct the index; select the constituents; collect the price data of constituents; and rebalance the index.

- (d) For the purposes of the product restrictions for Qualifying CIS, financial derivatives that a Qualifying CIS is allowed to invest in must not include credit derivatives regardless of whether the Qualifying CIS acts as protection seller or protection buyer.

SECTION 3

Investment limits of Qualifying CIS

Single body limit and group limit

1. A Qualifying CIS must invest no more than 10% of its net assets in aggregate in transferable securities or money market instruments issued by a single body.
2. A Qualifying CIS must not invest, in aggregate, more than 20% of its net assets:
 - (a) in transferable securities;
 - (b) in money market instruments;
 - (c) in deposits; and
 - (d) in OTC financial derivatives

issued by any single business group. For the purposes of this clause, a business group refers to a body, its subsidiaries, fellow subsidiaries, holding body, and ultimate holding body.

Deposits

3. A Qualifying CIS must invest no more than 20% of its net assets in deposits placed with a single body.

For the purposes of this clause, the limit does not apply to placements of deposits arising from:

- (a) subscription monies received at any point in time pending the commencement of investment by a Qualifying CIS; or
- (b) liquidation of investments prior to the termination or maturity of a Qualifying CIS, where the placing of these monies with various bodies would not be in the interests of Participants.

Guidance

In the case of (a), the Qualifying CIS must readjust the portfolio so that the Qualifying CIS meet the 20% limit expeditiously.

Benchmark limit

4. Where the Qualifying CIS and its reference benchmark comply with clause 5(c) of Section 2, the Qualifying CIS may invest in a transferable security that is a constituent of the reference benchmark, up to a single body limit as specified in clause 1 of Section 3 or two percentage points above the benchmark weight, whichever is higher. Where the foregoing single body limit is in excess of the limit in clause 1 of Section 3, the 20% limit in clause 2 of Section 3 will be raised to 25% of the net assets of the Qualifying CIS.

Government debt securities or money market instruments

5. The 10% single body limit in clause 1 of Section 3 may be increased to a maximum of 35% of the net assets of the Qualifying CIS if the issuing body or the guarantor is a government or sovereign or central bank with an international long-term issuer rating of investment grade. For the avoidance of doubt government or sovereign or central bank debt securities with an international long-term issuer rating that is of non-investment grade will be subject to the 5% limit in clause 6 of Section 3.

Unrated or non-investment grade, and unlisted limit

6. In the case where Qualifying CIS invested in the following assets, the limit in clause 1 and clause 3 of Section 3 is lowered to 5%:
 - (a) deposits placed with unrated or non-investment grade deposit-taking institution;
 - (b) debt securities or money market instruments not dealt in on organised market or issued by an unrated or non-investment grade issuing body; and
 - (c) unlisted shares.

Notwithstanding paragraph 6(b) of Section 3, the CIS Operator may rely on the rating of an unrated or non-investment grade issuer's parent company or guarantor provided that an explicit guarantee by the parent company or the guarantor for the issuer is in place.

Aggregate limit

7. Investments in:
 - (a) deposits placed with unrated or non-investment grade deposit-taking institution;
 - (b) debt securities or money market instruments not dealt in on organised market or issued by an unrated or non-investment grade issuing body;
 - (c) unlisted shares; and
 - (d) OTC financial derivatives with non-investment grade or unrated counterparty

must not, in aggregate, exceed 15% of the net assets of the Qualifying CIS.

For the avoidance of doubt, the exposure to a counterparty of an OTC financial derivative should be measured based on the maximum potential loss that may be incurred by the Qualifying CIS if the counterparty defaults subject to the calculation method set out under clause 17 of Section 3.

8. The aggregate 15% limit in clause 7 of Section 3 does not apply to deposits, debt securities or money market instruments or OTC financial derivatives where the:

- (a) deposit-taking institution, issuing body or counterparty is rated investment grade only with a national rating scale; and
- (b) the jurisdiction in which the issuing body or counterparty is domiciled has a sovereign credit rating that is at least investment grade.

Investment in other CIS

9. In the case of investments in units or shares of other CIS, a Qualifying CIS must be subject to the following limits:
- (a) investments in units or shares of each Qualifying CIS or non-Qualifying CIS must not exceed 10% of the net assets of the Qualifying CIS; and
 - (b) investments in units or shares of all non-Qualifying CIS excluding investment in units or shares of non-Qualifying CIS that satisfy clause 4(b)(3)(B) of Section 2 must not exceed 30% of net assets of the Qualifying CIS.

For the avoidance of doubt, a Qualifying CIS that has a feeder structure subject to Section 6 is not subject to clause 9.

Borrowing limit

10. A Qualifying CIS may borrow, on a temporary basis, for the purpose of meeting redemptions and bridging requirements.
11. The borrowing period should not exceed one month.
12. Aggregate borrowings for the purposes of clause 10 of Section 3 should not exceed 10% of net assets of the Qualifying CIS.

Guidance

Credit balances (e.g. cash) may not be offset against borrowings when determining the percentage of borrowings outstanding.

Concentration limit

13. A Qualifying CIS may acquire no more than:
- (a) 10% of the shares or securities equivalent to shares of any single issuing body;
 - (b) 10% of the debt securities of any single issuing body; and
 - (c) 10% of the money market instrument of a single issuing body.

Use of Financial Derivatives

14. A Qualifying CIS may invest in financial derivative instruments provided that CIS Operator employs a risk-management process which captures the risks associated with the use of financial derivatives and satisfies all of the following requirements on an ongoing basis:
- (a) the global exposure, calculated based on the commitment approach set out in Annex A, to financial derivatives or embedded financial derivatives must not exceed 20% of the net assets of the Qualifying CIS;
 - (b) the Qualifying CIS must, at all times, be capable of meeting all its payment and delivery obligations incurred by transactions involving financial derivative instruments;
 - 1. In the case of financial derivatives which will, or may at the option of the Qualifying CIS, be cash-settled, the scheme should hold, at all times, liquid assets sufficient to cover the Qualifying CIS's obligations.

Guidance

For example, when the Qualifying CIS takes a long position on futures on listed stock, the scheme should hold liquid assets equal to the amount by which the exercise price of the underlying stock exceeds the spot price multiplied by the number of the contracts and the notional contract size at all times. Similarly, in case of a short position on futures or short call options, the amount of liquid assets to be held should be equal to the amount by which the spot price exceeds the exercise price of the underlying stock multiplied by the number of the contracts and the notional contract size at all times. However, if the Qualifying CIS takes a long position on call or put options on listed stock, the scheme will not be required to hold such liquid assets.

- 2. In the case of financial derivatives which will, or may at the option of the counterparty, require physical delivery of the underlying assets, the Qualifying CIS should hold the underlying assets in sufficient quantities to meet the delivery obligation at all times. If the CIS Operator deems the underlying assets to be sufficiently liquid, the Qualifying CIS may hold as coverage other liquid assets in sufficient quantities, provided that such alternative assets may be readily converted into the underlying asset at any time to meet the delivery obligation.

Guidance

For example, when the Qualifying CIS takes a short position on futures or short call options on ABC bond with the condition of physical delivery, if ABC bond is not sufficiently liquid, the scheme should hold that ABC bond in sufficient quantities to meet the delivery obligation at all times. However, if ABC bond is sufficiently liquid, the scheme may hold as coverage other liquid assets in sufficient quantities.

- (c) the exposure to the underlying assets do not exceed, in aggregate, the investment limits laid down in clauses 1 to 9 of Section 3; and
- (d) the CIS Operator of the Qualifying CIS may not act as the counterparty to an OTC derivative invested into by the Qualifying CIS.

15. Notwithstanding clause 14(a) of Section 3, the global exposure, calculated based on the commitment approach set out in Annex A of an index-tracking Qualifying CIS that invests in exchange-traded financial derivatives for the purpose of index replication must not exceed 100% of the net assets of the Qualifying CIS.

Counterparty of Financial Derivatives

16. The maximum exposure of a Qualifying CIS to the counterparty of an OTC financial derivative must not exceed:
- (a) in the case of a counterparty with a minimum long-term rating of investment grade, 10% of the net assets of the Qualifying CIS; or
 - (b) in any other case, 5% of the net assets of the Qualifying CIS.

Notwithstanding paragraph 16(a), the minimum credit rating requirement may be met if the scheme has the benefit of a guarantee by an entity which has a long-term rating of investment grade.

17. The calculation method of the exposure to a counterparty of an OTC financial derivative will be the sum of the:
- (a) current positive replacement cost of each OTC financial derivative by carrying out a valuation at market price; and
 - (b) “add-on factor” by multiplying the notional principal amount or the market value of the underlying asset of the OTC financial derivative, whichever is more conservative, by the percentages in Table 3 to reflect the potential credit risk:

Table 3

Residual Term	Interest rate contracts	Exchange rate contracts	Equity derivative contracts	Other contracts
1 year or less	0%	1%	6%	10%
> 1 year and <= 5 years	0.5%	5%	8%	12%
> 5 years	1.5%	7.5%	10%	15%

For total return swaps, the relevant percentage is 10% regardless of the residual term.

18. The total exposure to a single counterparty, or group of counterparties, is calculated by summing the exposure arising from all OTC financial derivative transactions entered into with the same counterparty or group, as the case may be.
19. Exposure to a single counterparty would not be deemed to be lowered even when the counterparty posts collateral.

Embedded Financial Derivatives

20. Where a transferable security or money market instrument embeds a financial derivative, the requirements in clauses 14 and 15 of Section 3 apply to the embedded financial derivative.
21. Where the counterparty risk of the embedded derivative is or may be transferred to the scheme, the requirements in clauses 16 to 19 of Section 3 also apply to the embedded financial derivative.
22. A transferable security or money market instrument is considered to be embedding a financial derivative if it contains a component which fulfills 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 host contract to be modified according to a variable set out under clause 5(b) of Section 2, and therefore vary in a way similar to a stand-alone financial 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.
23. A transferable security or a money market instrument should not be regarded as embedding a financial derivative where it contains a component which is contractually transferable independently of the transferable security or the money market instrument. Such a component should be deemed to be a separate financial instrument.
24. Where an instrument is structured as an alternative to an OTC financial derivative or tailor-made to meet the specific needs of a scheme, the instrument should be deemed as embedding a financial derivative.

SECTION 4

Breach of Investment Restrictions

1. The Qualifying CIS Operator should inform the Home Regulator and trustee / fund supervisor or IOE within three business days in Home Jurisdiction after it becomes aware of any breach of the investment restrictions.
2. Notwithstanding clause 1 of Section 4, the CIS Operator need not report to the Home Regulator in the event of any breach of the investment limits that is not the consequence of an investment decision. The CIS Operator must rectify such breaches as soon as practicable, but no later than three months from the date of the breach unless the trustee or fund supervisor is satisfied that it is in the best interest of Participants for this period to be extended. Such extension should be notified to Participants and subject to monthly review by the trustee or fund supervisor.

SECTION 5

Additional Rules on Money Market Funds

1. This section applies to a Qualifying CIS that primarily invests in high quality debt securities and money market instruments or places deposits. A Qualifying CIS that markets itself as a money market fund or the equivalent of a money market fund must comply with this section.
2. Unless otherwise specified in this section, a Qualifying CIS that is a money market fund must comply with the requirements in Sections 1 to 4.
3. A Qualifying CIS that is a money market fund must have a:
 - (a) Weighted Average Maturity of not more than 90 days; and

Guidance

The weighted average maturity refers to the average length of time to maturity of all of the underlying securities in the fund, dollar-weighted to reflect the relative holdings in each instrument. For this purpose, the maturity of a floating rate instrument refers to the time remaining until the next interest rate reset.

- (b) Weighted Average Life of not more than 120 days.

Guidance

The weighted average life refers to the dollar-weighted average of the remaining life of each security held in a fund. Remaining life refers to the time remaining until the principal is repaid in full (disregarding interest and not discounting). The remaining life of a security is based on the security's stated final maturity date rather than the security's interest rate reset dates.

4. A Qualifying CIS that is a money market fund must have a cash reserve of at least 10% of its net assets.

Guidance

Cash reserve refers to any asset with high liquidity, low market risk, and can be cashed within T+1 day.

5. Notwithstanding clause 1 of Section 1, the types of assets a Qualifying CIS that is a money market fund must invest in include only the following:
 - (a) high quality debt securities;
 - (b) high quality money market instruments;
 - (c) deposits; and

(d) financial derivatives for hedging arrangements as defined in Appendix.

For the avoidance of doubt, a Qualifying CIS that is a money market fund must not engage in non-permissible activities such as securities lending, repurchase transactions, and direct lending of monies.

6. For the purposes of clause 5 of Section 5, a high quality debt security or money market instrument is one with:

(a) a remaining term to maturity of not more than 397 days; and

(b) an issuer credit rating that is:

1. in the case of short-term credit rating, one of the two highest credit ratings; and

2. in the case of long-term credit rating, one of the three highest credit ratings.

For the purposes of this clause, credit ratings refer to;

A. international scale rating; or

B. national scale rating of the issuing body, where the jurisdiction it is domiciled has a sovereign credit rating at least investment grade. For the avoidance of doubt, the limit in clause 1 of Section 3 is lowered to 5% of net assets, as set out under clause 6 of Section 3.

SECTION 6

Additional Rules on Master Feeder Fund

1. A feeder Qualifying CIS must invest at least 85% of its net assets in units or shares of another Qualifying CIS.
2. A master fund must not be itself a feeder fund.

SECTION 7

Additional Rules on Fund-of-Funds

1. This section applies to a Qualifying CIS whose primary investment approach is to invest all or substantially all of its assets in other schemes. A Qualifying CIS that adopts such an investment approach should include the term “fund-of-funds” or equivalent in its name.

Guidance

For the avoidance of doubt, a fund of ETFs would be viewed as a fund-of-funds.

2. A Qualifying CIS that is a fund-of-funds must invest at least 85% of its net assets in units or shares of other Qualifying CIS or non-Qualifying CIS authorised for public offer in a signatory country.
3. Unless otherwise specified in this section, a Qualifying CIS that is a fund-of-funds must comply with the requirements in Sections 1 to 4.
4. The underlying fund must not undertake a fund-of-funds or feeder fund investment approach.

SECTION 8

Additional Rules on Exchange-Traded Fund

1. A Qualifying CIS that is an exchange-traded fund must:
 - (a) use a passive management strategy;
 - (b) directly invest in the underlying without using any OTC derivatives or instruments embedding derivatives to create synthetic exposures to an index; and
 - (c) track widely-accepted non-leveraged financial indices comprising eligible assets where:
 1. such indices must satisfy the requirements in clause 5(c) of Section 2; and
 2. in the case of a securities index, such index must be published on the website of a stock exchange from a member country of the World Federation of Exchanges (WFE) and the securities that comprise that index must be listed on a stock exchange from a member country of the World Federation of Exchanges (WFE).
2. A Qualifying CIS that is an exchange-traded fund must comply with the requirements in Sections 1 to 4.

Annex A

Commitment Approach

1. The global exposure of a scheme is calculated as the sum of the:
 - (a) absolute value of the exposure of each individual financial derivative not involved in netting or hedging arrangements; and
 - (b) absolute value of the net exposure of each individual financial derivative after netting or hedging arrangements.

Netting arrangements

2. Netting arrangements may be taken into account to reduce a scheme's exposure to financial derivatives.
3. A scheme may net positions between:
 - (a) financial derivatives on the same underlying assets, even if the maturity dates are different; or
 - (b) financial derivatives and the same corresponding underlying asset, if those underlying assets are transferable securities, money market instruments or units or shares in other schemes.

Hedging arrangements

4. Hedging arrangements may be taken into account to reduce a schemes' exposure to financial derivatives.
5. The marked-to-market value of transferable securities, money market instruments or units or shares in schemes involved in hedging arrangements may be taken into account to reduce the exposure of a Qualifying CIS to financial derivatives.
6. The hedging arrangement should:
 - (a) not be aimed at generating a return;
 - (b) result in an overall verifiable reduction of the risk of the Qualifying CIS;
 - (c) offset the general and specific risks linked to the underlying being hedged;
 - (d) relate to the same asset class being hedged; and
 - (e) be able to meet its hedging objective in all market conditions.

Annex B

Offers of Qualifying CIS in the Philippines

The total expense ratio of a Qualifying CIS making an offer in Philippines shall not exceed 10% of the net asset value of the Qualifying CIS