

Asset Management Companies Rules, 1995



(S.R.O. NO. 392(I)/95, dated 15th May, 1995)

S.R.O. 392 (I)/95.- In exercise of the powers conferred by section by section 32 and 33 of the Securities and Exchange Ordinance, 1969 (XVII of 1969), the Federal Government is pleased to make the following rules to regulate the business of asset management companies, namely:-

1. Short title and commencement.- (1) These rules may be called the Asset Management Companies Rules, 1995.

(2). They shall come into force at once.

2. Definitions .- (1) In these rules, unless there is anything repugnant in the subject or context,-

(a) "Authority" means the Corporate Law Authority;



(b) "connected person", in relation to a company means,-

(i) any person or company beneficially owning, directly or indirectly, ten per cent or more of the ordinary share capital of that company or able to exercise, directly , or indirectly, ten per cent or more of the total votes in that company;

(ii) any person or company controlled by a person who or which meets one or both of the descriptions given in clause (i);

(iii) any member of the group of which that company forms part; or

(iv) any director or officer of that company or of any of its connected persons specified in clauses (i) , (ii) or (iii);

(c) “constitutive documents” means the principal documents governing the formation of the scheme, and includes the trust deed of a unit trust and all material agreements;

(d) “distribution function” means the functions with regard to-

(i) receiving application and money for units from persons;

(ii) issuing receipts in respect of the applications received in accordance with clause (i);

(iii) issuing contract notes to the applicants in accordance with the terms of the scheme; and

(iv) receiving redemption notices, transfer instructions and conversion notices from holders for immediate transmission to the management company or the scheme;

(e) "Form" means a form set out in Schedule I;

(f) "net assets", in relation to a scheme, means the excess of assets over liabilities of the scheme, such excess being computed in the manner specified hereunder:-

(i) A security listed on a stock exchange shall be valued at its last sale price on such exchange on the date as of which it is valued, or if such exchange is not open on such date, then at its last sale price on the next preceding date on which such exchange was open and if no sale is reported for such date, the security shall be valued at an amount not higher than the closing asked price nor lower than the closing bid price;

(ii) an investment purchased and awaiting payment against delivery shall be included for valuation purposes as a security held, and the cash account of the company shall be adjusted to reflect the purchase price, including brokers' commission and other expenses incurred in the purchase thereof but not disbursed as of the valuation date;

(iii) an investment sold but not delivered pending

receipt of proceeds shall be valued at the net sale price;

(iv) the value of any dividends, bonus, shares or rights which may have been declared on securities in the portfolio but not received by the company as of the close of business on the valuation date shall be included as assets of the company, if the security upon which such dividends, bonuses or rights were declared is included in the assets and is valued ex-dividend, ex-bonus or ex-rights as the case may be;

(v) a security not listed or quoted on a stock exchange shall be valued at investment price or its breakup value as per last audited accounts, whichever is lower;

(vi) interest accrued on any interest-bearing security in the portfolio shall be included as an asset of the company if such accrued interest is not otherwise included in the valuation of the security;

(vii) any other income accrued up to the date on which computation was made shall also be included in the assets; and

(viii) All liabilities, expenses, taxes and other charges due or accrued upto the date of computation which are chargeable under these rules, other than the paid-up capital of the company, shall be deducted from the value of the

assets;

(g) "offering document" means documents containing information on a scheme calculated to invite offers by the public for purchase of the units in that scheme;

(h) "Ordinance " means the Securities and Exchange Ordinance, 1969 (XVII of 1969);

(i) "Schedule" means a schedule to these rules;

(j) "scheme" means a unit trust scheme constituted by way of a trust deed which continuously offers for sale a security which entitles the holder of such security on demand to receive his proportionate share of the net assets of the security;

(k) "trust" means a trust established by a deed under the provisions of the Trusts Act, 1882 (II of 1882);

(l) "trustee" means a company appointed as a trustee and includes a bank licensed under the Banking Companies Ordinance, 1962 (LVII of 1962), a trust company which is a subsidiary of such a bank and a banking institution incorporated outside Pakistan acceptable to the Authority; and

(m) "unlisted security" means a security not listed or quoted on a stock exchange.

(2) Words and expressions used but not defined herein shall have the meanings assigned to them in the Ordinance.

3. No asset management company to commence business without registration.- No company shall commence business as an asset management company unless it is registered with the Authority under these rules.

4. Eligibility for registration.- A company proposing to commence business as an asset management company shall be eligible for registration under these rules if,-

(a) it is registered as a public limited company under the Companies Ordinance, 1984 (XLVII of 1984);

(b) it has a paid up capital of not less than thirty million rupees;

(c) no director, officer or employee of such company has been convicted of fraud or breach of trust;

(d) no director, officer or employee of such company has been adjudicated as insolvent or has suspended payment or has compounded with his creditors; and

(e) the promoters and directors of such company are, in the opinion of the Authority, persons of

means and integrity and have special knowledge and experience of matters which the company may have to deal with as an asset management company.

5. Registration .- (1) A company eligible for registration may make an application in Form I to the Authority for registration under these rules.

[1](1A) Application processing fee of fifty thousand rupees in the form of bank draft payable to the Commission shall accompany the application.

(2) The Authority may, after satisfying itself that the applicant is eligible for registration and that it would be in the interest of the capital market so to do, grant a certificate of registration to such company in Form II.

6. Cancellation of registration .- (1) Where the Authority is of opinion that an asset management company has contravened any provision of the Ordinance, or has otherwise neglected or failed to comply with any requirement of these rules or has failed or neglected to carry out its duties to the satisfaction of the trustee, and the Authority or the trustee, as the case may be, considers that it would be in the interest of the unit holders so to do, the Authority may, on its own motion or on the report of the trustee, by order in writing, cancel the registration of the asset management

company:

Provided that no such orders shall be made except after giving the asset management company an opportunity of being heard.

(2) If the registration of an asset management company is cancelled under sub rule (1), the Authority shall appoint another asset management company to manage the scheme or schemes as the case may be.

[2](3) an asset management company may apply to the Commission for the cancellation of its registration as an asset management company if it has, with the prior approval of the Commission, transferred management of its scheme to another asset management company, or its scheme has been de-authorized under rule 11, or the company no more Intends to function as an asset management company.

7. Restrictions.- No asset management company shall,-

(a) merge with, acquire or take over any other asset management company or a scheme, unless it has obtained the prior approval of the Authority in writing to the scheme of such merger, acquisition or takeover;

(b) pledge any of the securities held or beneficially owned by a scheme except for the

benefit of the scheme;

(c) accept deposits from a scheme;

(d) make a loan or advance money to any person except in connection with the normal business of the scheme;

(e) participate in a joint account with others in any transaction;

(f) apply any part of its assets to real estate except property for its own use;

(g) make any investment with the purpose of having the effect of vesting the management, or control, in the scheme; and

(h) employ as a broker, directly or indirectly, any of its director, officer or employee or a member of a family of such person which shall include spouse, parents, children, brothers and sisters.

8. Obligations of asset management company.- An asset management company shall,-

(a) be obliged to manage the assets of the scheme in the interest of the unit holders in good faith and to the best of its ability and without gaining any undue advantage for itself or any of its related parties or its officers;

(b) account to the trustee for any loss in value of

the assets of the scheme where such loss has been caused by its negligence, reckless or wilful act or omission;

(c) be responsible for the acts and omissions of all persons to whom it may delegate any of its functions as manager as if they were its own acts and omission;



(d) maintain at its principal office, proper accounts and records to enable a complete and accurate view to be formed of the assets and liabilities and the income and expenditure of the scheme, all transactions for the account of the scheme and amounts received by the scheme in respect of issues of units and paid out by the scheme on redemption of units and by way of distributions;

(e) prepare and transmit the annual report, together with a copy of the balance sheet and income and expenditure account and the auditor's report of a scheme within four months of closing of the accounting period to the unit holders, and the balance sheet and income and expenditure account shall comply with requirements set out in Schedule II;

(f) within two months of the close of the first half of its year of account, prepare and transmit to the unit holders and the Authority a profit and loss account for, and balance sheet as at the end of

that half year, whether audited or otherwise;

(g) maintain a register of unit holders of a scheme and inform the Authority of the address where the register is kept;

(h) appoint, at the establishment of a scheme and upon any vacancy, an auditor who shall be a Chartered Accountant and independent of the auditor of the management company and the trustees. Contents of the auditor's report shall be in accordance with Schedule II;

(i) furnish a copy of the annual report together with copies of the balance sheet, income and expenditure account and the auditor's report of a scheme to the Authority within four months of the close of the accounting period together with a statement containing the following information, namely:-

(i) total number of unit holders; and

(ii) particulars of the personnel (executive, research and other) of the asset management company; and

(j) furnish a copy of the company's annual report together with copies of the balance sheet, income and expenditure account and the auditors' report within four months of the close of the accounting period.

9. Remuneration payable to asset management company.- An asset management company shall be entitled to a remuneration,--

(a) during the first five years of the scheme, of an amount not exceeding three per cent of the net assets of the scheme as at the end of its year of accounts and thereafter of an amount equal to two per cent of such assets; and

(b) of an amount not exceeding one-half of the amount by which the dividend distributed by the scheme exceeds twenty per cent.

10. Authorization of scheme .- (1) No scheme shall be offered to the public unless the same is authorised by the Authority.

(2) An application for authorization of a scheme shall contain information as specified in Form III and shall be accompanied by the following information and documents, namely :-

(a) The scheme's constitutive documents contents of which have been set out in Schedule III;

(b) the management company's latest audited accounts, if applicable, and resumes of its directors;

(c) the trustee's latest audited accounts, if available;

(d) letter of consent to the appointment from the trustee;

(e) an undertaking from the management company that it will invest or arrange the investment of two hundred fifty million rupees for a minimum period of two years [3][provided that the Commission may reduce this requirement to fifty million rupees, where the management company has good performance record of average seventeen and half per cent total annual return or average twelve and half per cent dividend payment in respect of schemes under its management for previous three years and for the purpose of this clause "total annual return" shall mean pay out and appreciation in the value of units on the date of preparation of accounts.] [4]:

Provided that an undertaking may not be given in case a scheme has been established prior to the commencement of these Rules]; and

(f) application fee of twenty thousand rupees in the form of bank draft payable to the Authority.

11. De-authorization .- (1) Following the authorization of a scheme, its management company shall give at least three months' notice to unit holders if it is intended not to maintain such authorization.

(2) If the Authority considers that further

continuation of the authorization of the scheme will not be in the interest of unit holders, it will give a three months' notice to the unit holders about the Authority's intention not to maintain such authorization:

Provided that no notice shall be served without offering an opportunity of hearing to the management company.

(3) In case of de-authorization, the management company shall be required to wind-up the scheme and refund the proceeds to the unit holders in such manner and within such time as may be specified.

12. Advertisement and invitations .- (1) Advertisements and other invitations to the public in Pakistan to invest in a scheme, including public announcements, shall be submitted to the Authority for approval prior to their issue.

(2) The offering documents shall contain the information set out in Schedule IV.

(3) Any advertisement or invitation submitted for approval which concern the trustee must be accompanied by its written consent.

(4) The approval so granted may be varied or withdrawn by the Authority after giving an opportunity of hearing to the management company.

(5) Approval of an advertisement or invitation shall be valid for a period of six months from the date of approval provided that there is no change in the scheme.

13. Investment policy and diversification.- (1) Investment policy with respect to a scheme shall be clearly and concisely stated in public offering document for the sale of securities of such scheme.

(2) A scheme shall invest not less than fifty per cent of its assets in listed securities or in securities for the listing of which an application has been approved by a stock exchange.

(3) Investment of a scheme in any company shall not, at any time, exceed an amount equal to ten per cent of the total net asset value of the scheme at the time of investment or ten per cent of the issued capital of the company.

(4) No scheme shall invest more than twenty-five per cent of its net asset value in securities of any one sector as per classification of stock exchanges[5]:

Provided that the Commission may, on application by the asset management company, relax any, or all the requirements of this rule in case of any scheme established for a specific investment objective where the intention to that effect was

expressed in the offer document; and]

[6](5) In case a scheme has been in operation prior to the commencement of these Rules and has been subsequently authorized under these Rules, the Investments made prior to the grant of authorization shall be exempt from restrictions mentioned in sub-rule (3) and (4) for such a period as may be specified by the Commission.

14. Short sale not allowed.- No scheme shall effect a short sale in a security whether listed or unlisted.

15. Limitations and prohibitions.- (1) No scheme shall lend, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person.

(2) The maximum borrowing of a scheme shall not exceed twenty-five per cent of its total net asset value.

(3) The scheme shall not invest in any security of a company if any director or officer of the management company owns more than five per cent of the total nominal amount of the securities issued, or, collectively the directors and officers of the management company owns more than ten per cent of those securities[7][:

Provided that this condition shall not apply to a

scheme which has been in operation prior to the commencement of these Rules, and has been subsequently authorized under these Rules. However, the management company shall furnish to the Commission the details of such investments within thirty days of authorization of the scheme and also report the changes within fifteen days of the change. Furthermore, such information shall also be disclosed in the annual report and the half-yearly accounts of the scheme].

16. Appointment of trustees.- Every investment scheme for which authorization is requested shall appoint a trustee with the approval of the Authority.

17. Conditions applicable to trustees .- A trustee shall be ,-

(a) a scheduled bank licensed under the Banking Companies Ordinance, 1962 (LVII of 1962), and have been in business for at least five years; or

(b) a trust company which is a subsidiary of a scheduled bank; or

(c) a foreign bank operating as a scheduled bank in Pakistan and operating as trustee internationally; or

(d) a central depository company approved by the Authority.

18. Obligations of trustee .- A trustee shall ,-

(a) (i) take into its custody or under its control all the property of the scheme and hold it in trust for the unit holders in accordance with the law and the provision of the constitutive documents; and the cash and registerable assets shall be registered in the name of, or to the order of, the trustee;

(ii) be liable for any act or omission of any agent with whom any investments are deposited as if they were the act or omission of any nominee in relation to any investment forming part of the property of the scheme; and

(iii) be liable for the acts and omissions of the lenders and its agents in relation to assets forming part of the property of the scheme and, where borrowing is undertaken for the account of the scheme, such assets may be registered in the lender's name or in that of a nominee appointed by the lender;

(b) ensure that the sale, issue, repurchase, redemption and cancellation of units effected by a scheme are carried out in accordance with the provisions of the constitutive documents;

(c) ensure that the methods adopted by the management company in calculating the value of units are adequate to ensure that the sale, issue, repurchase, redemption and cancellation prices

are calculated in accordance with the provisions of the constitutive documents;

(d) carry out the instructions of the asset management company in respect of investments unless they are in conflict with the provisions of the offering or constitutive documents;

(e) ensure that the investment and borrowing limitations set out in the constitutive documents and the conditions under which the scheme was authorised are complied with;

(f) issue a report to be included in the annual report to be sent to unit holders whether, in the trustees' opinion, the asset management company has in all material respects managed the scheme in accordance with the provisions of the constitutive documents, if the asset management company has not done so, the respects in which it has not done so and the steps which the trustee has taken in respect thereof; and

(g) ensure that unit certificates are not issued until subscription moneys have been paid.

19. Retirement of trustee .- A trustee may, subject to prior approval of the Authority, retire from his office on appointment of a new trustee and the retirement shall take effect at the same time as the new trustee is appointed.

20. Trustee and the asset management company

to be independent.- (1) The trustee shall not in any way be related to the asset management company.

(2) A director or employee of the trustee shall not be involved in the management company.

21. Remuneration payable to the trustee .- A trustee shall be entitled to such fee or remuneration as may be allowed by the management company.

22. Pricing, issue and redemption of units.- (1) If an initial offer is made, no investment of subscription money shall be made until the conclusion of the first issue of units at the initial price.

(2) Offer and redemption prices shall be calculated on the basis of the scheme's net asset value divided by the number of units issued and such prices may be adjusted by fees and charges, provided that the amount or method of calculating such fees and charges is clearly disclosed in the offering documents.

(3) The value of investments not listed or quoted on a stock exchange shall be determined on a regular basis by the management company with the approval of the trustee.

(4) There must be at least four regular dealing days per week.

(5) Any offer price which the management company or the distribution company quotes or publishes must be the maximum price payable on purchase and any redemption price must be the net price receivable on redemption.

(6) The maximum interval between the receipt of a properly documented request for redemption of units and the payment of the redemption money to the holder shall not exceed six working days unless redemption has been suspended.

(7) Where a scheme deals at a known price, and based on information available, where the price exceeds or falls short of the current value of the underlying assets by more than five per cent, the management company shall defer dealing and calculate a new price as soon as possible.

(8) A permanent change in the method of dealing shall be made after one month's notice to unit holders.

(9) A temporary change may only be made,-

(a) in exceptional circumstances, having regard to the interests of unit holders;

(b) if the possibility of a change and the circumstances in which it can be made have been

fully disclosed in the offering documents; and

(c) with the approval of the trustee.

(10) Suspension of dealings shall be provided for only in exceptional circumstances, having regard to the interests of unit holders.

(11) The management company shall immediately notify the Authority if dealing in units ceases or is suspended and the fact that dealing is suspended shall also be published immediately following such decision in the newspaper in which the scheme's prices are normally published.

(12) Where redemption requests on any one dealing day exceed ten per cent of the total number of units in issue, redemption requests in excess of ten per cent may be deferred to the next dealing day.

23. Transaction with connected persons .- (1) No person shall be allowed to enter on behalf of the scheme into underwriting or sub-underwriting contracts without the prior consent of the trustee unless the scheme or the management company provides in writing that all commissions and fees payable to the management company under such contracts and all investments acquired pursuant to such contracts shall form part of the scheme's assets.

(2) If cash forming part of the scheme's assets

is deposited with the trustee, which is not a subsidiary of a banking company, return shall be received on the deposit at a rate not lower than the prevailing rate for a deposit of the size and term.

(3) All transactions carried out by or on behalf of the scheme shall be made as provided in the constitutive documents, and shall be disclosed in the scheme's annual report.

(4) No single connected stock-broker shall account for thirty per cent or more of the scheme's transactions in value in any one financial year of the scheme:

Provided that the Authority may, in each case on merits, permit the thirty per cent to be exceeded if the connected broker offers advantages to the scheme not available elsewhere.

[8]24. Relaxation of rules - Where the Commission is satisfied that it is not practicable to comply with any requirements of these rules in a particular case, or class of cases, or it would be in the interest of capital market so to do, the Commission may, with the approval of the Federal Government, for reasons to be recorded, relax such requirements subject to such conditions as it may deem fit.

FORM

FORM OF APPLICATION FOR

REGISTRATION OF AN

SCHEDULE-I

[See rule 5(1)]

ASSET MANAGEMENT COMPANY

To

Securities & Exchange Commission of
Pakistan,
Islamabad.

Dear Sir,

We hereby apply for the grant of
registration of

.....
..... (Name of asset
management company)

under rule 5 of the Asset Management Companies
Rules, 1995.

Two copies of the memorandum and articles of
association are enclosed.

Necessary information required in the annex to
this form is furnished. We undertake to keep this
information up to date at all times.

Yours faithfully,

Signature of a director of
the applicant

Annex to Form-I

1. Name, address and telephone number (s) of the
applicant.

.....

2. Names and addresses of directors.

.....

3. Whether any director has been convicted of
fraud or breach of trust.

.....

4. Whether any director has been adjudicated as
insolvent or has suspended payment or has
compounded with his creditors.

.....

5. Names and addresses of senior management/officers.

.....

6. Whether any officer has been convicted for fraud or breach of trust.

.....

7. Whether any officer has been adjudicated as insolvent or has suspended payment or has compounded with his creditors.

.....

8. Whether any director or officer has any interest in asset management company.

.....

9. What is the financial standing of the directors.

.....

10. Give a brief description of the kind of management services proposed to be provided, the organizational set up, previous professional

experience of directors and officers, etc.

.....

FORM II **CERTIFICATE OF REGISTRATION**
AS AN
ASSET MANAGEMENT COMPANY

Securities and Exchange Commission of Pakistan

the 200- Islamabad,

The Securities and Exchange Commission of Pakistan, having considered the application for registration of the *

..... and
being satisfied that the said

* is
eligible for registration and that it would be in the interest of the capital market so to do, in exercise of the powers conferred by sub-rule (2) of Rule 5 of the Asset Management Companies Rules, 1995, hereby grants registration to the

* subject
to the conditions stated herein below:

.....

(Signature of the officer)

FORM III **INFORMATION TO BE**
CONTAINED IN THE
APPLICATION FOR

AUTHORIZATION OF A SCHEME

[See rule 10(2)]

Details of the scheme :-

1. Name of the scheme.
2. Structure of the scheme.
3. Launch; date and place.
4. Dealing; daily/weekly/other.
5. Valuation of assets; daily/weekly/other.
6. Pricing policy.
7. Investment plans to be offered.

For each Scheme :-

- 8 Fee structure:
 - (i) Level of all charges payable by investor; and
 - (ii) Level or basis of calculation of all charges payable by the scheme.

Details of the parties to the scheme :-

9. The asset management company:

- (a) Name.
- (b) Registered or business address.
- (c) Name of the ultimate holding company, if any.
- (d) Previous approval of the Authority to manage authorized schemes. If no, the resumes of the directors and most recent audited financial report.

10. The trustee:

- (a) Name.
- (b) Registered or business address.
- (c) Name of the ultimate holding company, if any.
- (d) Previous approval of the Authority as trustee of authorized schemes. If no, names of the directors and most recent audited financial report.

11. For the trustee and asset management company:

- (a) Which, if any, of these companies are connected persons?
- (b) Name anyone who holds appointments, as director or officer, with more than one of these companies.

12. Distribution company:

- (a) Name.
- (b) Registered or business address.
- (c) Name of ultimate holding company.

13. The auditor:

- (a) Name.
- (b) Registered or business address.

14. The principal broker:

- (a) Name.
- (b) Registered or business address.
- (c) The approximate percentage of the scheme's transactions in value of securities carried out by the principal broker within the latest financial year of the scheme.
- (d) Whether the trustee, the directors of the scheme or the asset management company is a connected person of the principal broker?

15. Legal Adviser:

- (a) Name.
- (b) Registered or business address.

SCHEDULE-II CONTENTS OF FINANCIAL REPORTS

[See rule 8(e)(h)]

1. General

(1) Annual report must contain all the information required in this Schedule. Interim reports must at least contain the statement of asset and liabilities and the investment portfolio. Where the scheme has paid or proposes to pay an interim dividend, the amount of dividend should be disclosed.

(2) All reports must contain comparative figures for the previous period except for the investment portfolio.

(3) The items listed under the statement of assets and liabilities, income statement, distribution statement, statement of movements in reserves and the notes to the accounts, where applicable, must be disclosed. It is, however, not mandatory to adopt the format as shown or to disclose the items in the same order.

2. Statement of assets and liabilities

The following must be separately disclosed:-

- (1) total value of investments;
- (2) bank balances;
- (3) preliminary and floatation costs;
- (4) dividends and other receivables;
- (5) amounts receivable on subscription;
- (6) bank loan and overdrafts or other forms of borrowings;
- (7) amounts payable on redemption;
- (8) distribution payable;

- (9) total value of all assets;
- (10) total value of all liabilities;
- (11) net asset value;
- (12) number of units issued; and
- (13) net asset value per unit.

3. Income statement

- (1) Total investment income net of withholding tax, broken down by category.
- (2) Total other income, broken down by category.
- (3) Element of income and capital gains in prices of units sold less those in redemption.
- (4) An itemized list of various costs which have been debited to the scheme including, --
 - fees paid to the management company;
 - remuneration of the trustee;
 - amortization of formation costs;
 - director's fee and remuneration;
 - safe custody and bank charges;
 - auditor's remuneration;
 - borrowing expenses;

- other amounts paid to any connected person of the scheme;
- legal and other professional fees; and
- any other expense borne by the scheme.

(5) Taxes.

(6) Amounts transferred to and from reserves.

(7) Net income to be carried forward for distribution.

4. Distribution statement:

(1) Amount brought forward at the beginning of the period.

(2) Net income for the period.

(3) Interim distribution per unit and date of distribution.

(4) Final distribution per unit and date of distribution.

(5) Undistributed income carried forward.

5. Statement of movements in reserves:

(1) Value of the scheme as at the beginning of the period.

(2) Number of units issued and the amount received upon such issuance.

(3) Number of units redeemed and the amount paid on

redemption.

(4) Any item resulting in an increase or decrease in value of the scheme including. -

(i) surplus or loss on sale of investment;

(ii) exchange gain or loss;

(iii) unrealized appreciation or diminution in value of investment; and

(iv) net income for the period less distribution.

(5) Amounts transferred to and from the revenue account.

(6) Value of the scheme as at the end of the period.

6. Note to the accounts:

The following matters shall be set out in the notes to the accounts.

(1) Principal accounting policies

(a) the basis of valuation of the assets of the scheme including the basis of valuation of unquote and unlisted securities;

(b) the revenue recognition policy regarding dividend income and other income;

(c) foreign currency translation, if any;

(d) the basis of amortization of formation costs;

(e) taxation; and

(f) any other accounting policy adopted to deal with items which are judged material or critical in determining the transactions and in stating the disposition of the scheme.

Note. – Any changes to the above accounting policies and their financial effects upon the accounts should also be disclosed.

(2) Transactions with connected persons:

The following transactions should be disclosed:

(1) Details of all transactions entered into during the period between the scheme and the management company, or any entity in which these parties or their connected persons have a material interest; and

(2) Name of any director of the management company of any connected person if such a person becomes entitled to profits from transactions in shares or from management of the scheme and the amount of profits to which such person becomes entitled.

(3) Borrowings:

(1) State whether the borrowings are secured or unsecured and the duration of the borrowings.

(2) Contingent liabilities and commitments of the scheme.

(3) If the free negotiability of any asset is restricted by statutory or contractual requirements, this must be stated.

7. Contents of the auditors' report

The report of the auditor should state: -

- (1) Whether in the auditor's opinion, the accounts prepared for that period have been properly prepared in accordance with the relevant provisions of the trust deed and the rules;
- (2) Without prejudice to the foregoing, whether in the auditor's opinion, a true and fair view is given of the disposition of the scheme at the end of the period and of the transactions of the scheme of the period then ended;
- (3) if the auditor is of opinion that proper books and records have not been kept by the scheme or the accounts prepared are not in agreement with the scheme's books and records, that fact; and
- (4) if the auditor has failed to obtain all the information and explanations which, to the best of his knowledge and belief, are necessary for the purpose of the audit, that fact.

8. Investment portfolio

- (1) Number or quantity of each holding together with the description and market value.
- (2) The total investment stated at cost.
- (3) The value of each holding as a percentage of net asset value.
- (4) Statement of movements in portfolio holdings since the end of the preceding account period.

9. Performance table

(1) A comparative table covering the last three financial years and including, for each financial year, at the end of the financial year. -

(a) total net asset value; and

(b) net asset value per unit.

(2) A performance record over the last ten financial years; or if the scheme has not been in existence during the whole of that period in which it has been in existence, showing the highest issue price and the lowest redemption price of the units during each of those years.

**SCHEDULE
III**

**CONTENTS OF THE CONSTITUTIVE
DOCUMENTS**

[See rule 10(2) (a)]

1. Name of scheme.

2. Participating parties:

A statement to specify the participating parties including the asset management company and trustee.

3. Governing law.

4. For unit trusts: -

(a) A statement that the deed is binding on each holder as if he had been a party to it and so to be bound by its provisions and authorizes and requires the trustee and the management company to do as required of them by the terms of the deed.

(b) A provision that a holder is not liable to make any further payments after he had paid the purchase price of his units and that no further liability can be imposed on him in respect of the units which he holds.

(c) A declaration that the property of the scheme is held by the trustee on trust for the holders of the units *pari passu* according to the number of units held by each holder. (This may be modified as appropriate for schemes offering income and accumulation units.)

(d) A statement that the trustee will report to unit holders in accordance with the rules.

(e) A statement of the manner in which the trustee should retire.

5. Role of management company:

SCHEDULE 1V

INFORMATION TO BE DISCLOSED IN THE OFFERING DOCUMENT

[See rule 12(2)]

Notice: - This list is not intended to be exhaustive. The directors of the schemes or the management company are obliged to disclose any information which may be necessary for investors to make an informed judgment.

Constitution of the scheme

1. Name, registered address and place and date of creation of the scheme, with an indication of its duration if limited.

Investment objectives and restrictions

2. Details of investment objectives and policy, including summary of the investment and borrowing restrictions.

If the nature of the investment policy so dictates, a warning that investment in the scheme is subject to abnormal risks, and a description of the risks involved.

Operators and principals

3. The names and registered addresses of the following parties, where applicable:

- (a) the directors of the asset management company;
- (b) the trustee;
- (c) foreign promoters, if any;
- (d) the distribution company;

- (e) the auditor;
- (f) the registrar; and
- (g) the legal adviser.

Characteristics of units

- 4. Minimum investment, if any.
- 5. A description of the different, type of units.
- 6. Frequency of valuation and dealing, including days.
- 7. Application and redemption procedures.
- 8. The mode of the unit price announcement.
- 9. Procedure for subscribing/redeeming/conversion of units.
- 10. The maximum interval between the request for redemption and the payment of the redemption proceeds.
- 11. A summary of the circumstances in which dealing in units may be deferred or suspended.
- 12. It must be stated that no money should be paid to any intermediary except the unit holder or his authorized representative.

Distribution policy

- 13. The distribution policy indicating the time period for distribution of dividend.

Fees and charges

14. (a) the level of all fees and charges payable by an investor, including all charges levied on subscription and redemption and conversion, and

(b) the level of all fees and charges payable by the scheme, including management fee, advisory fee, trustee fee and preliminary and/or floatation expenses.

Taxation

15. Details of exemptions, taxes levied on the scheme's income and capital including tax, if any, deductible on distribution to unit holders.

Reports and accounts

16. The date of the scheme's financial year.

17. Particulars of the reports to be sent to the unit holders.

Warnings

18. The following statements or warnings must be prominently displayed in the offering documents: -

(a) if you are in any doubt about the contents of this offering document, you should consult your stock-broker, bank manager, legal adviser or other financial adviser.

(b) A warning that the price of units and the income from them (where income is distributed) may go down as well as up.

General information

19. A list of constitutive documents and the address where they can be inspected free of charge or purchased.

20. The date of publication of the offering document.

21. A statement that the asset management company accepts responsibility for the information contained in the offering document as being accurate at the date of publication.

22. Details of schemes not authorized must not be shown in the offering document.

Termination of scheme

23. A summary of the circumstance in which the scheme can be terminated.

[1] Inserted by SRO No.231(I)/2000 dated 27th April 2000

[2] Inserted by SRO No.231(I)/2000 dated 27th April 2000

[3] Inserted by SRO No.47(1)/2001 dated 25th January 2001

[4] Inserted by SRO No.231(I)/2000 dated 27th April 2000

[5] Inserted by SRO No.47(1)/2001 dated 25th January 2001

[6] Inserted by SRO No.231(I)/2000 dated 27th April 2000

[7] Inserted by SRO No.231(I)/2000 dated 27th April 2000

[8] Inserted by SRO No.47(1)/2001 dated 25th January
2001