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PART I : SECTION (I) — GENERAL

Government Notifications

COLLECTIVE INVESTMENT SCHEME CODE (CIS CODE)

The Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021

RULES made by the Securities and Exchange Commission of Sri Lanka, in terms of Section 183 of the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021.

VIRAJ DAYARATNE PC

Chairman

Securities and Exchange Commission of Sri Lanka.

Colombo,
07th of May 2022.

RULES

These Rules may be cited as the Collective Investment Scheme Code (CIS Code)



CIS CODE

ARRANGEMENT OF SECTIONS

1. Purpose	4
2. Establishment of a Scheme	4
3. Waiver	4
4. Interpretation	4
5. Types of Schemes	6
6. Public offers	7
7. Requirements of a Trustee and Custodian for the operation of a Scheme	7
8. Systems and controls to be maintained by a Managing Company, Trustee and Custodian of a Scheme	7
9. Trust deed of a Scheme	7
10. Recognition of Foreign Schemes	8
11. Capital and prudential requirements of a Scheme	8
12. Regulatory fees	8
13. Functions of the Managing Company of a Scheme	8
14. Duties of the Managing Company of a Scheme	10
15. General Business Requirement of a Managing Company	11
16. Termination of the services of the Managing Company	11
17. Appointment of a Trustee	12
18. Requirement for the Trustee to be independent of the Managing Company	12
19. Functions of a Trustee	12
20. Duties of a Trustee	13
21. General business requirements of a Trustee	14
22. Replacement of the Trustee	14
23. Appointment of Custodian	14
24. Functions of a Custodian	14
25. Duties of a Custodian	15
26. General Business Obligations of a Custodian	16
27. Replacement of the Custodian of a Scheme	16
28. Marketing schemes: The Requirement for fair and clear information	16
29. Responsibility for marketing and promotion	16
30. Requirements for the name of the Scheme	17

31. Conditions to be satisfied for the use of the word ‘guaranteed’ or ‘protected’	17
32. Advertisements and promotional material	17
33. Investors in a Scheme	17
34. General conditions for initial offers of all Schemes	17
35. General conditions for sale and purchase of all Units	18
36. Sale and redemption of units in open-ended and Interval Schemes	18
37. Evidence of ownership of Units and transfer of ownership	19
38. Extent of liability of Unit Holders in Schemes	19
39. Investment objectives	19
40. Limitations on investments of a Scheme offered to the public	19
41. Limitations on borrowing and lending and related activities offered to the Public	20
42. Payment out of and into the assets of a Scheme	20
43. Creation, issue, repurchases and redemptions of units	20
44. Asset valuation and pricing	21
45. Umbrella Schemes	21
46. Money Market Schemes	22
47. Exchange Traded Funds (ETF)	22
48. Reporting requirements for all Schemes	26
49. Approval of annual accounts and interim reports	26
50. Requirements for annual report and financial statements	26
51. Interim Report and Financial Statements	27
52. Auditor of a Scheme	27
53. Co-operation with Auditors	29
54. Transfer of a Scheme	29
55. Suspension of dealing and termination of a Scheme	29
56. Termination/Winding up of a Collective Investment Scheme	30
<i>Appendix 1: Minimum Contents of a Trust Deed</i>	31
<i>Appendix 2: Guidelines on Collective Investment Scheme advertisements and promotional material</i>	38
<i>Appendix 3: Key Investor Information Document (KIID)</i>	45
<i>Appendix 4: Guidance on asset valuation and pricing</i>	49
<i>Appendix 5: Guidelines in respect of Money Market Schemes</i>	53
<i>Appendix 6: Guidance on Conflicts of Interests</i>	56
<i>Appendix 7: Guidance on Complaints Handling</i>	60

CIS CODE

THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA ACT, No. 19 OF 2021

RULES made by the Securities and Exchange Commission of Sri Lanka, under Section 183 of the Securities and Exchange Commission of Sri Lanka Act, No.19 of 2021.

1. Purpose

- (1) These Rules shall be cited as the Collective Investment Scheme Code of 2022.
- (2) The provisions of this Code shall apply to all Schemes in so far as such provisions are relevant to such Schemes. For the avoidance of doubt, the Rules made by the Commission in respect of the Unit Trust code for Sri Lanka Real Estate Investment Trusts, No. 1 of 2020 (REITs) published in the Government Gazette (Extraordinary) bearing No. 2186/29, dated July 31, 2020 shall continue to apply in respect of REITs.
- (3) The Unit Trust Code, 2011 published in the Government Gazette (Extraordinary) bearing No. 1723/4 dated September 12, 2011 shall have no application from date hereof.

2. Establishment of a Scheme

- (1) No person shall establish, manage, operate or market a Scheme in Sri Lanka without the prior written approval of the Commission.
- (2) No Scheme shall be established, managed, operated or marketed other than by a Managing Company licensed by the Commission and such Managing Company has obtained the prior written approval of the Commission.
- (3) A body corporate licensed by a regulator of a country other than Sri Lanka may market a Scheme in Sri Lanka and may accept investments provided the prior written approval of the Commission is obtained in the manner provided in this Code.
- (4) The grant of approval for the establishment of a Scheme shall be in accordance with the provisions contained in the Rules made by the Commission in respect of Managing Companies.
- (5) No person shall use the words “Unit Trust”, “Exchange Traded Fund”, “Real Estate Investment Trust” or “Hedge Fund” or any other name referring to any Scheme unless the Managing Company has been granted approval to operate such Scheme, Exchange Traded Fund, Real Estate Investment Trust, Hedge Fund or any other Scheme.

3. Waiver

The Commission may exempt persons from the application of any one (1) or more of these Rules on an application made in that behalf or by way of directives which the Commission may from time to time issue.

4. Interpretation

“**Accredited Investor**” shall have the same meaning as defined in the SEC Act and shall include institutional investors;

“**Authorized Participant**” means a licensed person that has entered into a participating agreement or any similar arrangement with an ETF and participates in the creation and redemption of shares in the ETF in accordance with the terms provided under the agreement between the Authorized Participant and the ETF;

“**Arbitrage**” means for the purpose of an ETF, the practice of the Authorized Participant to cause the creation of more ETF shares for sale in the secondary market or to purchase ETF shares in the secondary market for redemption, in order to take advantage of the price differential of the ETF’s net asset value per share (“NAVps”) and the market price;

“Basket of Securities” means the bundle of securities whose names and numbers are specified each business day by an ETF, in exchange for which, the ETF will issue, or in return for which it will redeem ETF shares; provided that the ETF may allow cash to be a part of the basket in accordance with the provisions contained in this Code;

“Commission” means the Securities and Exchange Commission of Sri Lanka established in terms of the SEC Act;

“Companies Act” means the Companies Act, No. 07 of 2007 as amended;

“Custodian” means a Commercial Bank licensed by the Central Bank of Sri Lanka to whom the property of the Scheme is entrusted for safekeeping;

“Creation Unit” is the smallest block of ETF units that can be created or redeemed by an Authorized Participant from the ETF as specified and disclosed in the KIID;

“Debenture” has the same meaning as defined in the Companies Act;

“Distribution Account” means an account which has been set up by the Trustee to hold income for distribution to Unit Holders;

“Exchange Traded Fund” (“ETF”) means a pooled investment Scheme with shares that can be bought or sold throughout the day on an Exchange at a market-determined price. Similar to a Unit Trust, an ETF offers investors a proportionate share in a pool of stocks, bonds and other assets;

“Exit Fees” means the portion of proceeds received by the Managing Company equivalent to the difference between the redemption price and the proceeds from the sale of a Unit, which is paid to the Unit Holder;

“Feeder Collective Scheme” means an open-ended Scheme which is dedicated to investing not less than a percentage of its assets based on the Scheme as specified by the Commission from time to time, in other specified open-ended Scheme;

“Foreign Scheme” means a Scheme established in a country other than Sri Lanka;

“Front End Fee” means the difference between the issue price and the portion of the proceeds from the sale of a Unit which is received by the Managing Company;

“Index” means a single number that is calculated based on known methodology and is used to gauge the price and/or volume movements of a list of selected securities traded in an Exchange;

“Indicative Net Asset Value” (“INAV”) means an approximation of the current value of the Basket of Securities on a per share basis computed at a two (2) minute interval throughout the trading hours of an Exchange;

“Issue Price” means the sum the Managing Company would require to be paid over to it for inclusion in the assets of the Scheme in return for issuing one Unit or fraction of a Unit;

“Issuer” means a person who issues or proposes to issue securities by way of public offer for sale;

“Key Investor Information Document (KIID)” means a written statement that discloses in detail the terms of the offering of a Scheme;

“Leverage” means any method by which the Managing Company of a Scheme increases the exposure of the Scheme whether by borrowing or use of derivatives or otherwise;

“Managing Company” means the Managing Company of a Scheme licensed by the Commission and shall have the same meaning as defined in the SEC Act;

“Market Maker” shall have the same meaning as defined in the SEC Act and for avoidance of any doubt means an Authorized Participant that assumes the obligation of providing two-way quotes for the purpose of ensuring liquidity and maintaining a fair and orderly trading market to the ETF Units;

“Money Market Scheme” means an open-ended Scheme whose primary objective is to maintain the net asset value (NAV) of the Scheme either constant at par (net of earnings) or at the value of the Unit Holder’s initial capital plus earnings and which shall sell and redeem its Units every business day;

“Net Asset Value”(NAV) means the aggregate value of the assets of a Scheme as determined by the market value of its underlying securities holdings specified by this Code or the trust deed as the case may be including any cash in the portfolio less liabilities, computed at the close of the trading hours of the Exchange;

“Net Asset Value per Share”(NAVps) means the computed NAV on a per share basis. It is calculated by dividing a Scheme’s total net assets by its number of shares outstanding;

“Net Asset Value per Unit” (NAVpu) means the computed NAV on a per Unit basis. It is calculated by dividing a Scheme’s total net assets by its number of Units outstanding;

“Professional Participant” means the Managing Company, Trustee and/or Custodian of a Scheme;

“Public Trustee” means the officer appointed as Public Trustee under the Public Trustee Ordinance (Chapter 88);

“Scheme” means a Collective Investment Scheme as defined in the SEC Act and established upon approval granted by the Commission as a trust and includes any Sub-Schemes and any Unit Trust that has been established in terms of the SEC Act, No. 36 of 1987 and is presently in operation;

“SEC Act” means the Securities and Exchange Commission of Sri Lanka Act, No.19 of 2021;

“Sub-Scheme” means a distinct part of the property of an Umbrella Scheme that is pooled, managed and accounted for separately;

“Trustee” means a person appointed as Trustee in the instrument creating such Scheme in accordance with the provisions of this Code;

“Umbrella Scheme” means an open-ended Scheme which shall be divided into a number of Sub-Schemes in which Unit Holders are entitled to exchange rights in one Sub-Scheme for rights in another;

“Unit” means one of the equal proportionate participations into which the beneficial interests in the assets of a Scheme are divided and includes shares;

“Unit Holder” means any person who by reason of the holding of units or shares or by reason of having invested capital in a Scheme is entitled to a proportionate part of the property of the Scheme.

5. Types of Schemes

(1) A Scheme shall be established as:

- (a) an open-ended Scheme, which is obliged to redeem Unit Holder's holdings upon their request at a price related to the NAV of the property of the Scheme at regular intervals as stated in the KIID of a Scheme, and in any case, not less than once a week;

or

- (b) a close-ended Scheme which is not required to redeem Unit Holder's holdings at their request. A close-ended Scheme shall have a fixed or indefinite life. A close-ended Scheme which has a life of more than five (5) years at inception shall list its Units on an Exchange licensed by the Commission;

or

- (c) an interval Scheme which is obliged to redeem Unit Holder's holdings at a price related to the NAV of the property of the Scheme at regular periodic intervals specified in the KIID of a Scheme but in any case, not less than once a year.

6. Public offers

- (1) A Scheme may be established and operated by way of a public offer or by way of a private placement.
- (2) A Scheme which is to be established by way of a public offer may be listed and traded on an Exchange licensed by the Commission.
- (3) A Scheme established by way of a private placement shall only be offered to Accredited Investors.
- (4) No sale of Units of a Scheme shall take place unless a copy of the approved KIID has been made available to the prospective investors.

7. Requirements of a Trustee and Custodian for the operation of a Scheme

- (1) The Custodian of a Scheme shall be a Bank licensed by the Central Bank of Sri Lanka and the Trustee of a Scheme shall be a Bank licensed by the Central Bank of Sri Lanka. A Custodian and a Trustee of a Scheme shall obtain prior approval of the Commission in order to function in such capacity.
- (2) A Custodian or Trustee who intends to obtain approval from the Commission shall satisfy the Commission that it has the capacity to perform the functions of a Custodian or a Trustee.

8. Systems and controls to be maintained by a Managing Company, Trustee and Custodian of a Scheme

A Managing Company, a Trustee and a Custodian shall have the capability and capacity to carry out the functions, duties and obligations required of them in respect of a Scheme and amongst others shall:

- (a) establish and maintain risk management systems and controls to enable it to identify, assess, mitigate, control and monitor risks in relation to the Scheme; and
- (b) have adequate and appropriate systems, procedures and processes to properly and efficiently manage the operations of a Scheme.

9. Trust deed of a Scheme

- (1) The constituting document of a Scheme shall be the trust deed.
- (2) The trust deed of a Scheme shall not contain any provision which will have the effect of exempting the Managing Company, the Trustee, the Custodian or the auditor of the Scheme from any duty or function specified under this Code or of indemnifying any such person against liability for any failure to carry out such duty or function.
- (3) The trust deed of a Scheme shall not contain any provision that:

- (a) conflicts with the provisions contained in this Code, the provisions contained in the SEC Act or any Directions issued by the Commission from time to time; and
 - (b) is prejudicial to the interests of Unit Holders in general or any particular class of Unit Holders of a Scheme.
- (4) A trust deed shall contain comprehensive details pertaining to the Scheme and shall amongst others include matters as spelt out in **Appendix 1** of this Code including any amendments made to such trust deed. An amendment may be made to the trust deed only upon receiving written approval from the Commission for same.
- (5) The Managing Company of a Scheme shall ensure that the trust deed of each Scheme is published on its website.

10. Recognition of Foreign Schemes

- (1) A body corporate established in a country other than Sri Lanka which has been licensed by a foreign regulatory authority to establish, manage, operate and market a Scheme may apply to the Commission for approval and the Commission may grant approval to such body corporate to market and operate such Scheme in Sri Lanka.
- (2) An application for such approval shall be made in the manner provided for under the Rules of the Commission made in respect of Managing Companies.
- (3) A Scheme in respect of which approval is sought from the Commission shall ensure to investors in Sri Lanka the same protection that similar Schemes in Sri Lanka afford to them.

11. Capital and prudential requirements of a Scheme

The Commission shall by way of directives specify the capital and other prudential requirements to be satisfied by a Managing Company and it shall be the duty of such Managing Company to comply with such requirements.

12. Regulatory fees

The fee payable to the Commission in respect of every Scheme at the time of obtaining approval shall be prescribed by way of regulations made by the Minister from time to time.

13. Functions of the Managing Company of a Scheme

- (1) The Managing Company shall:
 - (a) ensure that all property of the Scheme is clearly identified as the property of the Scheme and that such property is held by a Custodian separately from the property of the Managing Company and from the property of any other Scheme operated by the Managing Company;
 - (b) carry out all administrative functions of the Scheme;
 - (c) maintain the register of all Unit Holders of the Scheme;
 - (d) offer and distribute the Units of the Scheme;
 - (e) in the case of open-ended and interval Schemes, deal in the Units of the Scheme;
 - (f) maintain accounting records of the Scheme including the maintenance of proper accounts in respect of assets and expenses of the Scheme;

- (g) value the assets of the Scheme and calculate the NAV of the Scheme and the NAVpu of the Scheme and where relevant the price per Unit for sales and redemptions;
 - (h) decide on the composition of the assets of the Scheme in accordance with the stated investment objectives and policy contained in the trust deed and the KIID of the Scheme;
 - (i) instruct the Trustee or Custodian as the case may be in writing indicating the manner in which rights pertaining to the property of the Scheme is to be exercised; and
 - (j) maintain all records, prepare and publish reports pertaining to the operations of the Scheme and ensure compliance with the KIID, provisions contained in this Code, provisions contained in the SEC Act, rules, and any directives issued by the Commission from time to time and ensure that such records are kept for a minimum period of six (6) years.
- (2) The Managing Company may outsource to any other party the performance of any functions mentioned in (1) above, except those mentioned in (1) (h) and (i) having obtained the prior written approval of the Commission. Notwithstanding the outsourcing of any such function, the Managing Company shall at all times be liable and shall remain responsible for the functions that have been outsourced.
- (3) Where the Managing Company of a Scheme outsources any of the functions, it shall ensure that:
- (a) the Managing Company can at all times effectively monitor the performance of the functions that have been outsourced;
 - (b) the party to whom any function has been outsourced, enables the Commission to carry out any supervisory functions relating to the functions that have been outsourced;
 - (c) such outsourced functions are carried out in the best interests of Unit Holders;
 - (d) there are controls in place to ensure that the person to whom the functions are outsourced complies with the KIID, the provisions contained in this Code, the trust deed, the provisions of the SEC Act, rules and directives issued from time to time by the Commission; and
 - (e) the person to whom the functions are outsourced is suitable to undertake the particular functions that have been outsourced and ensure that such outsourcing has been done to a person that:
 - (i) has adequate financial resources;
 - (ii) has adequate experience and a proven track record in the performance of the functions outsourced; and
 - (iii) has adequate and appropriate human resources, systems, procedures and processes in place to carry out the functions that have been outsourced.
 - (f) the service agreements entered into between the Managing Company and the person to whom functions have been outsourced shall, amongst other things, contain provisions regarding the specific service to be provided and the fees, remuneration and other charges that are payable.
- (4) The Managing Company of a Scheme shall exercise due care and diligence in the discharge of its duties and shall be liable to the Scheme and its Unit Holders for any loss suffered by them arising from negligence, malfeasance of employees and directors, fraud, wilful default or recklessness or omission in the performance of the said duties.

14. Duties of the Managing Company of a Scheme

- (1) The Managing Company of a Scheme shall at all times:
 - (a) operate the Scheme with due care and diligence in compliance with the KIID of the Scheme, the trust deed, the provisions contained in this Code, the provisions contained in the SEC Act, rules and directives issued by the Commission from time to time;
 - (b) exercise its powers in the best interests of the Unit Holders of the Scheme;
 - (c) act impartially between all Unit Holders of the Scheme;
 - (d) not profit by its office except through the payment of remuneration permitted in terms of the KIID and the trust deed;
 - (e) avoid conflicts of interest between itself and the Unit Holders of the Scheme and in instances where the Managing Company operates more than one (1) Scheme, ensure that independence is maintained in the management of each Scheme;
 - (f) avoid buying or selling any securities in its own name unless otherwise permitted by the Commission;
 - (g) take all reasonable steps to obtain the best possible result for the Scheme, taking into account factors such as: price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of a trade or transaction;
 - (h) ensure that an annual independent audit of the Scheme is carried out;
 - (i) have internal policies and procedures to ensure that a Scheme is operated in accordance with applicable legal requirements, such as customer due diligence rules issued by the Financial Intelligence Unit;
 - (j) disclose any conflicts of interest that may arise in the operation of a Scheme and how such conflicts will be handled in accordance with the guidelines on Conflicts of Interest as contained in **Appendix 6** of this Code; and
 - (k) give the Unit Holders, not less than one (1) month prior written notice or press notice of any increase in the Managing Company's annual charges, up to the maximum permitted level specified in the trust deed.
- (2) The Managing Company of a Scheme shall not retain any rebate from, or otherwise share in any commission with, any broker or dealer in consideration for dealings in the assets of a Scheme. Accordingly, any rebate or shared commission shall be directed to the account of the relevant Scheme.
- (3) Notwithstanding paragraph (2) above, goods and services (soft commissions) provided by any Stock Broker or Stock Dealer may be retained by the Managing Company if:
 - (a) the goods and services are of demonstrable benefit to Unit Holders and are in the form of research and advisory services that assist in the decision making process relating to the Scheme's investments;
 - (b) any dealing with the Stock Broker or Stock Dealer is executed on terms which are the most favourable for the Scheme; and
 - (c) the practice of the Managing Company in relation to soft commissions is adequately disclosed in the KIID and reports of the Scheme, including a description of the goods and services received by the Managing Company.

- (4) The Managing Company shall not enter into excessive trades in order to achieve a particular volume of transactions so as to qualify for soft commissions.
- (5) The receipt of goods and services such as travel, accommodation and entertainment do not meet the conditions set out in 14 (3)(a) and are prohibited.
- (6) The Managing Company of a Scheme shall report to the Commission immediately after it becomes aware of any material breach of:
 - (a) any provisions contained in this Code, the provisions contained in the SEC Act, the rules, and directives issued by the Commission from time to time made or other applicable law in Sri Lanka; and
 - (b) The trust deed of the Scheme and the KIID.
- (7) The Managing Company of a Scheme shall share the details relating to Unit Holders in the Scheme with the Trustee, as and when required to do so by the Trustee.
- (8) All reports prepared by or for the Scheme shall be approved by the Trustee prior to the dissemination to Unit Holders. Subsequent to the approval by the Trustee, the Managing Company shall file such reports with the Commission.

15. General Business Requirement of a Managing Company

- (1) A Managing Company of a Scheme shall at all times comply with:
 - (a) any financial requirements as may be specified by the Commission from time to time;
 - (b) any liquidity requirements for such Schemes as may be specified by the Commission from time to time;
 - (c) any corporate governance best practices as may be specified by the Commission from time to time.
- (2) Nothing in this section shall preclude a Managing Company from engaging in any other regulated activity provided that a licence is obtained from the Commission to engage in such other regulated activity.
- (3) The duties of the Managing Company imposed upon it by the provisions of the SEC Act, provisions of this Code, any rules and directives issued by the Commission from time to time are in addition to and not in derogation of the duties, which are otherwise imposed on them by any other law.

16. Termination of the services of the Managing Company

- (1) The services of a Managing Company shall not be terminated until a new Managing Company which has been licensed by the Commission, has been appointed by the Trustee with the approval of the Commission and written notice of the termination and appointment of the new Managing Company has been sent to Unit Holders. The termination shall take effect at the same time as the new Managing Company takes office.
- (2) A new Managing Company may, with effect from the date of its appointment change the name of the Scheme with the approval of the Commission and the Trustee.
- (3) Notwithstanding anything to the contrary contained in the trust deed and subject to the provisions contained in (1) above, the services of a Managing Company may be terminated by the Trustee of a Scheme in writing with the approval of the Commission upon the occurrence of one (1) or more of the following events:

- (a) if for good and sufficient reason, the Trustee is of the opinion after an inquiry by a person appointed by the Trustee and acceptable to the Commission that a change in the Managing Company is desirable in the interests of Unit Holders;
 - (b) winding up proceedings of the Managing Company have commenced;
 - (c) if Unit Holders representing at least seventy-five percentum (75%) of the total Units in issue (excluding those held by the Managing Company) deliver to the Trustee or the Commission as the case maybe a written request that the Managing Company be removed;
 - (d) the licence issued to the Managing Company by the Commission has been suspended or cancelled;
 - (e) the Managing Company has failed to renew its licence granted by the Commission; and
 - (f) the Managing Company has violated any provision of the SEC Act, the provisions of this Code, rules and directives issued by the Commission.
- (4) In the event the services of a Managing Company is terminated due to either of the grounds as enumerated under Rule 16 (3) above, the Trustee shall with the approval of the Commission appoint in its place another Managing Company, licensed by the Commission.

17. Appointment of a Trustee

- (1) A Managing Company shall appoint a Trustee for every Scheme with the prior written approval of the Commission.
- (2) The Trustee of a Scheme shall:
 - (a) be a bank licensed by the Central Bank of Sri Lanka under the Banking Act, No. 30 of 1988; or
 - (b) be a banking institution or trust company incorporated outside Sri Lanka which is licensed and regulated by a body in that country exercising powers equivalent to those exercised by the Central Bank of Sri Lanka and which is acceptable to the Commission.

18. Requirement for the Trustee to be independent of the Managing Company

- (1) The Trustee and the Managing Company shall be persons who are independent of each other and the Trustee shall not be a person who is able to exercise any control over the Managing Company.

For the purpose of this Rule 'control' means a relationship between a parent and a subsidiary or a parent and an associate.

- (2) The Managing Company shall ensure that it does not place any funds of the Scheme as a deposit with the Trustee.

19. Functions of a Trustee

- (1) The Trustee of a Scheme shall ensure that:
 - (a) the assets of the Scheme are held and dealt with by it in a manner that promotes the best interests of the Unit Holders of a Scheme and in accordance with the trust deed of the Scheme, the KIID, the provisions of this Code, the provisions contained in the SEC Act, any rules and directives issued by the Commission from time to time;
 - (b) the property of the Scheme is segregated from its own property, the property of other Schemes and the property of the Managing Company of the Scheme;
 - (c) adequate procedures and processes are established to carry out its duties effectively;

- (d) a valuation of the assets of the Scheme is carried out; and
 - (e) accounts prepared by the Managing Company are properly examined.
- (2) The Trustee of a Scheme is required to maintain in respect of each Scheme, records that will demonstrate compliance with:
- (a) the provisions contained in the trust deed, the KIID, provisions of this Code, provisions contained in the SEC Act, any rules and directives issued by the Commission from time to time; and
 - (b) submit a compliance report regarding the activities of the Scheme to the Commission at least on a half yearly basis.
- (3) A Trustee shall not destroy, conceal or alter any records or books relating to the Scheme which are in its possession or under its control with the intention of defeating, preventing, delaying or obstructing the carrying out of any examination.
- (4) The records referred to above shall be kept for a minimum of six (6) years.
- (5) The Trustee of a Scheme shall ensure the safe keeping of assets of the Scheme.
- (6) The Trustee of a Scheme shall be liable to the Managing Company and Unit Holders for any loss suffered by them arising from negligence, fraud, wilful default, recklessness or omission in the performance of its duties.

20. Duties of a Trustee

- (1) A Trustee of a Scheme is required to act at all times in compliance with the trust deed of the Scheme, the KIID, provisions contained in this Code, provisions of the SEC Act, rules and directives issued by the Commission from time to time.
- (2) A Trustee of a Scheme shall:
- (a) act with due care and diligence at all times and in accordance with the terms of the trust deed;
 - (b) exercise its powers in the best interests of the Unit Holders;
 - (c) act impartially between all the Unit Holders;
 - (d) not profit by its office except through the payment of remuneration permitted under the trust deed of the Scheme and the KIID;
 - (e) avoid conflicts of interest between itself and the Unit Holders; If the Trustee is desirous of investing in a Scheme of which it is a Trustee, it shall obtain the prior written approval of the Commission.
 - (f) to maintain an 'income account' where all income received by the Trustee shall be accounted into an income account and held therein pending capitalization or distribution in accordance with the trust deed and a 'distribution account' to which in the event a distribution is made pursuant to the trust deed, an appropriate amount out of the assets of the Scheme shall be transferred into a distribution account by the Trustee;
 - (g) ensure that an independent audit of the Scheme is carried out;
 - (h) ensure that all investments made by the Scheme are recorded in the name of the Scheme;
 - (i) keep in its custody and control all documents of title to the property of the Scheme;
 - (j) advise the Managing Company of any corporate actions that are required to be taken in relation to the property of the Scheme;

- (k) ensure that instructions given to it by the Managing Company for the exercise of rights to which the property of the Scheme is entitled to are carried out;
- (l) where applicable verify the NAV of the Scheme and price per Unit for the sales and redemptions with the Managing Company's records on a daily basis; and
- (m) approve all advertisement and promotional material relating to the Scheme. The Trustee shall file a report with the Commission regarding an approved advertisement as and when such approval is granted.

21. General business requirements of a Trustee

- (1) The Trustee of a Scheme shall at all times comply with:
 - (a) such financial requirements as may be specified by the Commission from time to time;
 - (b) the requirements to file with the Commission such reports and information pertaining to the Scheme in a complete, timely and accurate manner, and
 - (c) such corporate governance best practices as may be specified by the Commission from time to time.
- (2) The Trustee of a Scheme shall report to the Commission immediately after it becomes aware of any contravention of:
 - (a) the provisions of the SEC Act, provisions of this Code, any rules and directives issued by the Commission from time to time; and
 - (b) the trust deed or the KIID of a Scheme.
- (3) The duties of the Trustee imposed upon it by the provisions of the SEC Act, the KIID, provisions of this Code, any rules and directives issued by the Commission from time to time are in addition to and not in derogation of the duties which are otherwise imposed on them by any other law.

22. Replacement of the Trustee

- (1) A Trustee may withdraw its appointment from the Scheme provided that such withdrawal complies with the trust deed and a new Trustee approved by the Commission is appointed simultaneously upon such withdrawal.
- (2) The Managing Company of a Scheme shall, subject to the approval of the Commission, replace the Trustee of the Scheme in accordance with the provisions of the trust deed and such replacement shall take effect upon a new Trustee approved by the Commission being appointed simultaneously.
- (3) The Commission may where it is satisfied that the Trustee of a Scheme has acted in contravention of the trust deed, the KIID, any provision of the SEC Act, provisions contained in this Code, any rules and directive issued by the Commission or is guilty of malpractice or irregularity in the management of the affairs of the Scheme, remove the Trustee provided a new Trustee who has been approved by the Commission is appointed simultaneously.

23. Appointment of Custodian

- (1) Every Scheme shall appoint a Custodian with the prior written approval of the Commission.
- (2) The Custodian of a Scheme is required to be a Commercial Bank licensed under the Banking Act, No. 30 of 1988.

24. Functions of a Custodian

- (1) The Custodian of a Scheme is required to:

- (a) hold and deal with the assets of the Scheme in accordance with the KIID, provisions contained in the trust deed of the Scheme, the provisions contained in this Code, the provisions contained in the SEC Act, rules and directives issued by the Commission from time to time and in a manner that promotes the best interests of the Unit Holders of the Scheme;
 - (b) segregate the property of the Scheme from its own property, the property of other Schemes and the property of the Managing Company of the Scheme; and
 - (c) be responsible for the collection of income due to the Scheme.
- (2) The Custodian of a Scheme is required to maintain in respect of each Scheme, such records that are necessary to comply with the provisions contained in this Code, provisions contained in the SEC Act, rules and directives issued by the Commission from time to time.
- (3) A Custodian shall not destroy, conceal or alter any records or books relating to the Scheme which are in its possession or under its control with the intention of defeating, preventing, delaying or obstructing the carrying out of any examination.
- (4) The records referred to above shall be kept for a minimum of six (6) years.
- (5) The Custodian of a Scheme shall be liable to the Managing Company and Unit Holders for any loss suffered by them arising from negligence, fraud, wilful default, recklessness or omission in the performance of its duties.

25. Duties of a Custodian

- (1) A Custodian shall enter into a written agreement with the Managing Company in order to provide custodial services to the Scheme.
- (2) The agreement entered into between the Custodian and Managing Company shall contain details with regard to the manner in which its fee in respect of Custodial services is to be computed and such details shall be disclosed in the annual report of the Scheme.
- (3) The Custodian shall:
 - (a) have custody of all the assets of the Scheme and hold it to the order of the Trustee, in accordance with the trust deed, the provisions contained in this Code, the provisions contained in the SEC Act, and directions issued by the Commission from time to time;
 - (b) receive and keep in safe custody documents of title, securities and cash of the Scheme;
 - (c) open and maintain a bank account in the name of the Scheme for the exclusive use of the Scheme;
 - (d) transfer, exchange or deliver in the required form and manner securities held by the Custodian in accordance with the instructions received from the Managing Company;
 - (e) deliver to the Trustee and the Managing Company copies of all notices received by the Custodian in relation to the assets of the Scheme, financial reports and shareholder communications received from the issuers of securities from time to time;
 - (f) exercise subscription, purchase or any other rights represented by the securities of the Scheme upon instructions received from the Managing Company; and
 - (g) exercise the same standard of care that it exercises over its own assets in holding, maintaining, servicing and disposing of the assets of the Scheme and in fulfilling its other obligations.

4. A Custodian in discharging its duties towards the Scheme shall not obtain the services of a third party except in instances where any part of the assets of the Scheme is invested in offshore investments. In instances where offshore investments have been made, the Custodian may engage the services of an overseas sub-custodian approved by the Trustee and the Custodian shall notify the Commission of such appointment.

26. General business obligations of a Custodian

- (1) The Custodian of a Scheme shall at all times comply with –
 - (a) such financial requirements as may be specified by the Commission from time to time;
 - (b) the requirements to file with the Commission such reports and information pertaining to the Scheme in a complete, timely and accurate manner; and
 - (c) such corporate governance best practices as may be specified by the Commission from time to time.
- (2) The Custodian of a Scheme shall report to the Commission immediately after it becomes aware of any contravention of:
 - (a) any provision of the SEC Act, provisions contained in this Code rules and directives issued by the Commission from time to time; and
 - (b) provisions contained in the trust deed or KIID.
- (3) The duties of the Custodian imposed upon it by the provisions of the SEC Act, provisions of this Code, any rules and directives issued by the Commission from time to time are in addition to and not in derogation of the duties which are otherwise imposed on them by any other law.

27. Replacement of the Custodian of a Scheme

- (1) A Custodian may withdraw its appointment provided that such withdrawal complies with the trust deed and a new Custodian approved by the Commission is appointed simultaneously upon such withdrawal.
- (2) The Managing Company of a Scheme shall, subject to the approval of the Commission, replace the Custodian of the Scheme in accordance with the provisions of the trust deed and such replacement shall take effect upon a new Custodian approved by the Commission being appointed simultaneously.
- (3) The Commission may where it is satisfied that the Custodian of a Scheme has acted in contravention of the trust deed, the KIID, any provision of the SEC Act, this Code, any rule or directive issued by the Commission or is guilty of malpractice or irregularity in the management of the affairs of the Scheme, remove the Custodian provided a new Custodian who has been approved by the Commission is appointed simultaneously.

28. Marketing Schemes: The requirement for fair and clear information

The information used to market or promote a Scheme shall be accurate, clear and fair and shall not contain any material which is prejudicial to the interests of investors generally or to any class of investors.

29. Responsibility for marketing and promotion

The Managing Company shall be responsible for all marketing and promotional information in respect of every Scheme. Any expenditure incurred in marketing and promotional activity shall be borne by the Managing Company and shall not be charged to the Scheme.

30. Requirements for the name of the Scheme

The Managing Company shall ensure that the name of the Scheme or class of Units in the Scheme is not misleading or in conflict with the name of another Scheme or class of Units in that Scheme.

31. Conditions to be satisfied for the use of the word ‘guaranteed’ or ‘protected’

- (1) If the word “guaranteed” or “protected” or any other words denoting a similar meaning is to be used by the Managing Company as part of promoting or marketing of a Scheme, the Managing Company shall demonstrate to the satisfaction of the Commission that:
 - (a) the guarantor has the authority and resources to honour the terms of the guarantee; and
 - (b) all the terms of the guarantee and the credentials of the guarantor are clearly set out in detail in all material used for such promotion or marketing activity and that any exclusions are highlighted.

32. Advertisements and promotional material

In the publication of all advertisements and promotional material a Managing Company shall follow the Guideline contained in **Appendix 2** of this Code.

33. Investors in a Scheme

- (1) Investors in an open-ended, interval and close-ended Scheme shall be issued with Units representing their participation in the Scheme.
- (2) A Managing Company shall make available to all prospective investors in a Scheme, a copy of the KIID approved by the Commission.
- (3) The standard format and contents of a KIID shall be as provided for in **Appendix 3** of this Code.
- (4) Subject to the approval of the Commission, it shall be the duty of the Managing Company to amend its KIID either by the substitution of a completely new memorandum or by the addition or deletion of any information contained therein –
 - (a) upon the occurrence of any material change in the information stated therein; or
 - (b) upon the arising of any significant new matter which should be stated therein.
- (5) The date on which such amendment was made shall be recorded prominently in the KIID.

34. General conditions for initial offers of all Schemes

- (1) During the initial offer period for a Scheme the price paid per Unit shall be the fixed price as set out in the KIID.
- (2) The initial offer period shall not exceed twenty-one (21) business days and no redemptions shall take place during this period.
- (3) All monies subscribed during the initial offer period shall be paid into the bank account of the Scheme which shall be controlled by the Custodian and shall not be invested in any other manner until the initial offer period is over. However, investments may be made with the approval of the Commission during the initial offer period once the minimum subscription amount is reached. No charges for entry or exit or management of the Scheme shall be made against these monies until the end of the fixed price initial offer period or the minimum subscription amount being reached, whichever is earlier.

- (4) If during the initial fixed price offer period, the initial fixed price offering fails to reach any minimum subscription value as required by the KIID, the monies held in the account by the Trustee or Custodian shall be returned to the subscribers in full within ten (10) days of the expiry of the initial fixed price offer period. The Commission shall be informed immediately of such occurrence.
- (5) The price at which Units may be offered for sale immediately after the end of the fixed price initial offer period shall be the NAV of the Unit. However, a separately disclosed initial charge expressed as a percentage of the NAVpu may be added provided the charge is clearly stated in the KIID.
- (6) The price at which a Unit may be redeemed immediately after the end of the fixed price initial offer period, shall be the NAV of the Unit. However, a separately disclosed exit charge expressed as a percentage of the NAVpu may be deducted provided the charge is clearly stated in the KIID.

35. General conditions for sale and purchase of all Units

Purchase of Units, including initial purchase in a Scheme shall be fully paid up and the name of a Unit Holder shall not be entered in the register until such time payment for the Units has been received.

36. Sale and redemption of units in open-ended and interval Schemes

- (1) Upon receipt of a valid order and payment being made therefore, Units in an open-ended or interval Scheme may be issued only after recording the number of Units and the class in the register.
- (2) Upon receipt of a valid order for the redemption of Units in an open-ended or interval Scheme, such redemption may be made by recording the cancellation of the existing number and class of Units in the register.
- (3) Sale of Units may take place only at the next price calculated after receipt of a valid order and payment. However, in the case of different types of income Schemes, the NAV of the previous day may be applied for creation of Units, provided such funds received for creation have been invested on the same day.
- (4) Redemption of Units may take place only at the next price calculated after receipt of a valid order.
- (5) The time of the issue or cancellation shall be the time when the record is made.
- (6) On every dealing day, the Managing Company shall inform the Trustee in writing, the number of Units of the Scheme to be issued/cancelled along with the amount payable in respect thereof during such day.
- (7) The Managing Company shall ensure that at each valuation point there are as many Units in issue of any class as there are Units of that class registered to Unit Holders for that class.
- (8) The Managing Company when issuing or cancelling Units shall not do or omit to do anything that would confer an advantage on itself or its associated persons at the expense of a Unit Holder or potential Unit Holder.
- (9) The Managing Company of an open-ended or an interval Scheme shall at all times during the dealing day be willing to effect the sale of Units except where the trust deed of an interval Scheme may limit the issue and sale of Units.
- (10) Payment for Units shall be made in full within five (5) business days prior to their issue.
- (11) The Managing Company of an open-ended or an interval Scheme shall at all times during the dealing day be willing to effect the redemption of Units except where the trust deed of an interval Scheme limits the redemption and cancellation of Units.
- (12) The proceeds of the redemption of Units in an open-ended Scheme shall be paid to the redeeming holder within ten (10) business days of the acceptance of the redemption order.

37. Evidence of ownership of Units and transfer of ownership

- (1) The Managing Company shall maintain or cause to be maintained an updated register of the Unit Holders of the Scheme.
- (2) The register shall be conclusive evidence of the persons entitled to the Units entered therein.
- (3) The register of a Scheme shall contain:
 - (a) the name and address of each Unit Holder;
 - (b) the number of Units held by each Unit Holder;
 - (c) the number of holdings of each class in issue.
 - (d) the date on which the Unit Holder was registered in respect of the Units recorded under his name.
- (4) Every Unit Holder in a Scheme shall have the right to transfer their Units by an instrument of transfer in any form that the Managing Company may approve provided such a transfer is permitted by the trust deed.
- (5) Every instrument of transfer shall be signed by or on behalf of the Unit Holder transferring the Units and the transferee shall not be recognized as a Unit Holder in the Scheme until the name of such transferee has been entered in the register.
- (6) Every instrument of transfer, duly stamped, shall be left for registration with the Managing Company, accompanied by any other evidence reasonably required by the person responsible for the register.
- (7) An instrument of transfer on behalf of a body corporate shall be signed by one or more officers authorised to execute documents on behalf of such body corporate and authenticated by the placing of its seal.
- (8) Transfer of dematerialised Units in a Scheme shall be effected in accordance with the provisions contained in the SEC Act and/or any requirements of the Central Depository or the Exchange.

38. Extent of liability of Unit Holders in Schemes

- (1) The liability of a Unit Holder of a Scheme is limited to the amount, which, at the time when any debts falls due, is equal to the NAV of the Units held by such Unit Holder.
- (2) A Unit Holder in a Scheme is not liable for acts or omissions of the Managing Company, Trustee or of the Custodian of that Scheme.

39. Investment objectives

- (1) Subject to the investment objectives and policy of the Scheme as contained in the KIID, the Managing Company of a Scheme shall at all times ensure that, the Scheme provides a prudent spread of risk.
- (2) The Managing Company shall ensure that the portfolio of a Scheme shall at all times be consistent with the Scheme's investment objectives and risks.

40. Limitations on investments of a Scheme offered to the public

- (1) An open-ended or interval Scheme that is offered to the public shall ensure that in making investments in the securities of any one (1) Issuer, it does not at any given time exceed the percentage of the NAV of the Scheme that may have been specified from time to time by the Commission.
- (2) A Scheme shall make investments only as permitted by the trust deed and the KIID.
- (3) When a Scheme replicates an Index, its exposure to any one (1) constituent of the Index shall reflect the proportion of the Index replicated, provided the same and its implications are prominently specified in the KIID.

41. Limitations on borrowing and lending and related activities offered to the public

- (1) An open-ended or interval Scheme that is offered to the public shall not borrow by any method whatsoever except where the borrowing:
 - (a) is temporary and is for a period not exceeding three (3) calendar months;
 - (b) does not exceed the percentage of the NAV of the Scheme as may have been determined by the Commission by way of its directives; and
 - (c) is not used to leverage investment returns.
- (2) A Scheme shall not engage in any form of direct lending of any part of its assets.
- (3) A Scheme shall not assume, guarantee, endorse or otherwise become directly or indirectly liable for or in connection with any obligation or indebtedness of any third party.

42. Payment out of and into the assets of a Scheme

No expense shall be paid out of the assets of a Scheme unless clearly provided for in the KIID.

43. Creation, issue, repurchases and redemptions of Units

- (1) The creation, cancellation, sale, repurchase and redemption of Units, the valuation of the assets of the Scheme and the calculation of the sale, issue, repurchase and redemption prices of Units shall be done in accordance with the provisions contained in the trust deed of the Scheme.
- (2) The latest available offer and redemption prices of a Scheme shall be published, in at least one (1) leading Sri Lankan daily newspaper or on the website of the Managing Company. If the NAV of a Scheme is published it may be stated that this price excludes the front-end fee or exit fee if any.
- (3) The maximum interval between the receipt of a properly documented request for redemption of Units and the payment of the redemption money to the Unit Holder, shall not exceed ten (10) business days from the dealing day on which, the request was received. Where, for any exceptional reason, it is not feasible or desirable to make payment of the redemption money within ten (10) business days, the Commission shall be notified forthwith giving reasons as to why such payment should not be made within ten (10) business days.
- (4) A Unit Holder of a Scheme shall be entitled to have his Units repurchased or redeemed in accordance with the terms of the trust deed of the Scheme at a price which is related to the NAV of the Units and determined in accordance with the terms published in the KIID.
- (5) Requests for redemption of Units in an open-ended or interval Scheme shall not be permitted where:
 - (a) the value/ number of Units remaining after such redemption is lesser than the minimum value/number of Units that was required in order for an investor to qualify to make an investment in the Scheme as spelt out in the KIID;
 - (b) any provision contained in the KIID does not permit such redemption; or
 - (c) the Commission has temporarily permitted the suspension of redemption of Units of a Scheme.
- (6) The Managing Company of an open-ended and an interval Scheme may in consultation with the Trustee of that Scheme and subject to approval of the Commission suspend redemption of Units in a Scheme where to do so is in the interests of investors of that Scheme, provided the sale of Units in the Scheme are also suspended.

- (7) The Commission may specify a period of time during which the suspension of dealings in the Schemes may be valid.
- (8) The Managing Company of a Scheme which suspends redemption and sales of Units under (5) (c) above is required to immediately notify the investors of:
 - (a) such suspension and the reasons for such suspension; and
 - (b) the proposed time period when redemptions and sales may resume.
- (9) The Commission may in exceptional circumstances:
 - (a) require a Managing Company of a Scheme to temporarily suspend the sale and redemption of Units in order to protect the interests of Unit Holders; and
 - (b) require a Managing Company to resume the sale and redemption of holdings, shares or Units of a Scheme.

44. Asset valuation and pricing

- (1) The Managing Company shall be responsible for the valuation of the assets of a Scheme and the calculation of the price of Units in such Scheme.
- (2) All assets of a Scheme shall be valued in accordance with the valuation guidelines contained in **Appendix 4** of this Code.
- (3) The valuation method that will be adopted in order to determine the NAV of its portfolio of investments shall be as provided for in the KIID.
- (4) The valuation method to be adopted in order to determine its illiquid assets shall be as provided for in the KIID.
- (5) Except in the case of the first public offering, purchase and redemption prices of Units of a Scheme shall be determined on the basis of the NAV calculated in the manner provided for in the KIID.
- (6) The NAV of an open ended Scheme shall be calculated at least once every business day and where such calculation is not possible for reasons as stated in the KIID, it shall be calculated at least once every week or at such frequency as may be approved by the Commission.

Specialist Types of Schemes

45. Umbrella Schemes

- (1) A Managing Company may establish two (2) or more Sub-Schemes in respect of an open-ended Scheme that is under its management.
- (2) Each of the Sub Schemes of an Umbrella Scheme shall be approved by the Commission.
- (3) Each Sub Scheme shall invest not less than eighty-five per centum (85%) of its assets in the Umbrella Scheme.
- (4) If the number of Sub-Schemes in an Umbrella Scheme, at any time after the first issue of Units of the Umbrella Scheme, falls below two (2), in order for it to continue as an Umbrella Scheme it shall ensure that at least one (1) other Sub-Scheme is added to the Umbrella Scheme within a period which is not later than twenty-four (24) months.
- (5) In the event an Umbrella Scheme has failed to increase the number of Sub-Schemes to two (2) or more within such period, the Umbrella Scheme shall come to end. Within two (2) weeks of the Umbrella Scheme coming to an end, the Managing Company shall take steps to inform the Unit Holders of the remaining Sub-Scheme that the Umbrella Scheme has come to an end.

46. Money Market Schemes

Guidelines applicable for the setting up and operating a Money Market Schemes shall be as spelt out in **Appendix 5** to this Code.

47. Exchange Traded Funds (ETF)

(1) Authorized Participants of an ETF

- (a) An Authorized Participant shall be appointed by the Managing Company in respect of an ETF and shall be responsible for in-kind creation and redemption of ETF Units.
- (b) An Authorized Participant shall enter into a written agreement with the Managing Company and the Trustee to perform its services.
- (c) An Authorized Participant shall possess adequate resources, including competent staff, appropriate systems, procedures and processes in order to execute transactions of ETF shares in a proper and efficient manner.
- (d) An Authorized Participant shall comply with any additional conditions that may be imposed by the Commission or the relevant Exchange in which the ETF is listed.
- (e) If the Managing Company appoints an Authorized Participant to handle more than one (1) ETF, the Managing Company, shall ensure that it has taken appropriate steps to avoid and eliminate any conflicts of interest.

(2) Role and duties of an Authorized Participant

- (a) An Authorized Participant shall undertake in-kind creation and redemption of shares in the market on behalf of the ETF either as principal or on behalf of Unit Holders and shall keep the Managing Company informed of all such transactions
- (b) An Authorized Participant shall ensure that the creation and redemption of shares undertaken on behalf of Unit Holders shall be segregated from trades carried out as principal.
- (c) An Authorized Participant shall observe high standards of integrity when dealing in the primary as well as the secondary market in all dealings on behalf of the ETF as principal or on behalf of Unit Holders.

(3) Index Requirements of an ETF

- (a) The Index shall be one that is recognized by the Commission and collectively indicates the price of the underlying assets traded on an Exchange or underlying assets traded in a market.
- (b) The price of the underlying assets relevant to the Index or the Index referred to in subparagraph (a) shall be disclosed publicly.
- (c) The ETF shall amongst others, also satisfy the requirements specified by the Commission pertaining to the price of the underlying asset, the assets included in the Index, the weight of each asset included in the Index, and the management method to be used to link the performance of the ETF with the fluctuation of the Index and price.

(4) Liquidity of ETF units and the underlying securities

The Managing Company of an ETF applying for listing of its shares shall demonstrate to the satisfaction of the Commission that there will be proper price formation in a secondary market for the said shares by ensuring that—

- (a) the shares of the ETF shall be listed and traded in an Exchange;
- (b) at least two (2) Authorized Participants will be appointed by the ETF, provided that at least one (1) of them will act as a Market Maker;
- (c) the underlying securities included in the Index will be listed and traded in an Exchange and have sufficient liquidity;

Provided, that securities that are part of the main Index of an Exchange will be deemed to have sufficient liquidity if the Exchange has considered liquidity as a criterion in the selection of securities for inclusion in the Index. Provided further that the ETF shall provide its own liquidity criteria and methodology which will be disclosed in its trust deed and the KIID;
- (d) the NAV and the NAVps shall be calculated daily after trading of the Exchange has closed. It shall be disclosed to the investing public by publication in the website of the Exchange as well as the website of the ETF; and
- (e) the INAV per share shall be calculated and published every two (2) minutes or such other frequency as may be specified by the Commission from time to time or as spelt out by the Exchange in its rules and approved by the Commission. It shall be made available to the investing public by publishing it in the Exchange board and website and on the website of the ETF.

(5) In-kind issuance and redemption of ETF shares

- (a) As a general rule, shares of an ETF shall be:
 - (i) issued only upon delivery by the Authorized Participant of the Basket of Securities included in an Index,
 - (ii) redeemed by the Authorized Participant surrendering the shares of the ETF to the Managing Company and the Managing Company delivering to the Authorized Participant, the Basket of Securities included in an Index.
- (b) In relation to the issuance and redemption of ETF shares, the KIID of an ETF shall provide for the following:
 - (i) the terms and conditions for the in-kind issuance and redemption of ETF shares which among others shall include, the valuation methodology, the price, timing and procedures;
 - (ii) instructions pertaining to the issue or redemption of ETF shares in Creation Units or multiples thereof;
 - (iii) provision to the effect that only an Authorized Participant shall be permitted to submit issuance and redemption instructions to the ETF,

Provided that, any person who holds a Basket of Securities or ETF shares equivalent to a Creation Unit, shall cause the Authorized Participant to present the said Basket of Securities or the ETF shares to be issued or redeemed on his behalf; and
 - (iv) the terms and conditions applicable for the redemption of shares held by an investor through the Authorized Participant, including the manner in which such redemption shall take place.
- (c) Not with standing the foregoing paragraphs, an ETF may accept cash to account for the fractional value of the portfolio of underlying securities.
- (d) Upon receiving a request from an Authorized Participant to establish a ETF Creation Unit of an existing ETF, the Managing Company shall do so in accordance with the provisions of the trust deed and the KIID.

- (e) When an Authorized Participant seeks to make a request to redeem a Creation Unit, it shall acquire the Basket of Securities equivalent to the value of the Creation Unit. The minimum number of shares required to create or invest in an ETF shall be as specified in the trust deed or the KIID.
- (f) If an investor or a Stock Broker or a Stock Dealer provides the Basket of Securities to an Authorized Participant, such Basket of Securities shall be transferred to the Managing Company via an account transfer made through a Central Depository.
- (g) An Authorized Participant shall use its own named account when trading securities for purposes of creating an ETF or issuance of new shares thereof.

(6) Issuance of ETF units in exchange for cash

An ETF may in exceptional circumstances allow the issuance of ETF Units in exchange for cash provided:

- (a) this option, when exercised, is not prejudicial to the interests of existing shareholders and shall not result in the disruption of an orderly market;
- (b) any expenses or fees that are incurred in relation to such issuance shall be for the account of the person/ investor making such issuance;
- (c) such an option is specified in the trust deed and the KIID, including the exceptional circumstance under which the said option may be exercised;
- (d) only Authorized Participants, for their own accounts, are allowed to exercise such option;
- (e) the ETF shall purchase the underlying securities in full within the period specified in the trust deed and the KIID;
- (f) the ETF shall record the exercise of such option and shall make such record available to the Exchange and the Commission upon request; and

Provided however the Commission reserves the right to disallow the exercise of the said option having determined that the in-cash arrangement is not in the best interests of the investors and/or the conduct of an orderly market.

(7) Direct Redemption

- (a) Subject to the approval of the Commission, an ETF may provide for a direct redemption mechanism for investors of the secondary market in exceptional circumstances which may amongst others include situations where:
 - (i) an ETF is delisted;
 - (ii) the secondary trading of ETF shares is disrupted over a prolonged period of time; or
 - (iii) the market price of the ETF shares varies significantly from NAVps.
- (b) The threshold for any price variation and any other market circumstances as well as the manner and procedure for direct redemption shall be stated in the trust deed and the KIID.

(8) Index and the Index Provider

- (a) An ETF shall clearly identify and describe the Index that it wishes to track as well as the provider of such Index.
- (b) Prior to using an index, an ETF shall enter into an agreement with an Index provider who has designed, constructed and calculated it.

- (c) An ETF shall not be entitled to select or use indices whose rebalancing frequency is less than a period of six (6) months.
- (d) An ETF shall provide in its trust deed and KIID, among others, the following information:
 - (i) initial composition of the index and the corresponding weights;
 - (ii) methodology used in the selection of the securities included in the Index and its rationale;
 - (iii) methodology used in the calculation of the Index and its rationale;
 - (iv) name and brief educational and professional background of the directors, officers and persons directly responsible for the design and review of the Index; and
 - (v) other indices designed, constructed and calculated by the Index provider, during the last five (5) years which are presently in use.

(9) Transparency of Index and portfolio holdings

- (a) An ETF shall maintain a website which shall be freely accessible by the public and which shall provide on a daily basis the following information:
 - (i) the Index that the ETF plans to track;
 - (ii) the identities and weightings of the component securities and other assets held by the ETF;
 - (iii) the identities and weightings of the component securities and other assets of the Index;
 - (iv) the number and type of securities comprising the Basket of Securities with which the ETF could create or could redeem Creation Units; and
 - (v) the performance of the Index and the ETF.
- (b) In order to alert investors of the current relationship between NAVps and the market price of the ETF's shares and for the purpose of informing them that they may sell or purchase ETF shares at prices that do not correspond to the NAVps of the fund, the ETF shall disclose on its website as well as the website of the Exchange where it is traded, the following information:
 - (i) the extent and frequency with which market prices of ETF shares have tracked the fund's NAVps;
 - (ii) the prior business day's last determined NAV;
 - (iii) the market closing price of its shares; and
 - (iv) the premium/discount of the closing price to NAVps.

(10) Arbitrage Mechanism

An ETF shall operate with an Arbitrage mechanism designed to minimize the potential deviation between the market price and NAVps or INAV per share of ETF shares. The ETF shall establish Creation Unit sizes, the number of shares of which are reasonably designed to facilitate Arbitrage, with an offsetting sale (or purchase) of shares on an Exchange at as nearly the same time as practicable for the purpose of taking advantage of a difference in the NAVps and INAV per share and the current market price of the ETF shares.

(11) Securities lending activity

- (a) An ETF may engage in securities lending with the prior approval of the Commission provided however:

- (i) the securities lending activity shall be disclosed in the trust deed and the KIID;
 - (ii) the guidelines for securities lending shall provide that the net revenue arising from the activity shall be returned to the ETF;
 - (iii) on-going operations thereon shall be disclosed in the annual report; and
 - (iv) the ETF shall be able to recall any securities lent or be entitled to terminate any securities lending agreement it has entered into.
- (b) The ETF Managing Company shall at all times comply with any directions issued by the Commission or the Exchange with regard to securities borrowing and lending.

(12) Listing and delisting requirements

- (a) An ETF shall be listed on an Exchange within thirty (30) days of its establishment in accordance with the listing rules of an Exchange.
- (b) The ETF shall follow the listing requirements and delisting requirements of the Exchange it has listed on.

48. Reporting requirements for all Schemes

The Managing Company shall for purposes of reporting treat each Sub-Scheme as a separate Scheme.

49. Approval of annual accounts and interim reports

The annual audited accounts and interim reports of a Scheme shall be approved by the board of directors of the Managing Company and be signed by two (2) directors of the Managing Company and the Trustee.

50. Requirements for annual report and financial statements

- (1) The annual report and audited accounts prepared based on Sri Lankan Accounting Standards adopted by the Institute of Chartered Accountants of Sri Lanka shall give a true and fair view of the financial position of a Scheme and be prepared by the Managing Company for each annual accounting period and shall contain:
 - (a) reports from the Managing Company, the Trustee and the auditor summarising their duties and making any statements required by this Code;
 - (b) a balance sheet or statement of assets and liabilities and any off-balance sheet commitments;
 - (c) a statement of total return including a detailed income and expenditure account for the period;
 - (d) a cash flow statement;
 - (e) the investment portfolio of the Scheme;
 - (f) a report on the activities for the period;
 - (g) in the case of an open-ended or interval Scheme, a statement of movement of Unit Holders' assets;
 - (h) disclosure of any related party transactions; and
 - (i) disclosure of any significant information which may enable investors to make an informed judgment on the activities and investments and performance of the Scheme.

- (2) Such annual report and audited accounts shall be submitted to the Commission by the Managing Company within four (4) calendar months after the end of the annual accounting period.
- (3) The annual report and audited accounts shall be forwarded to the Trustee for approval prior to it being submitted to the Commission.
- (4) The annual report and audited accounts shall be made available to current Unit Holders of the Scheme and also be published on the website of the Managing Company within four (4) calendar months of the end of the last day of the financial year
- (5) The annual report and audited accounts of a Scheme shall be a stand-alone document and shall not contain any extraneous or financial promotion material.

51. Interim Report and Financial Statements

- (1) An interim report and unaudited accounts shall be produced for each Scheme for the first six (6) months of each annual accounting reporting period and shall contain the same information as required in the annual audited report and accounts but need not contain an auditor's report.
- (2) An interim report and unaudited accounts shall contain:
 - (a) a balance sheet or statement of assets and liabilities;
 - (b) a statement of total return including a detailed income and expenditure account for the period;
 - (c) a cash flow statement;
 - (d) the investment portfolio of the Scheme;
 - (e) a report on the activities for the period;
 - (f) in the case of an open-ended or interval Scheme, a statement of movement of Unit Holders' assets;
 - (g) disclosure of any related party transactions; and
 - (h) disclosure of any significant information which shall enable investors to make an informed judgment on the activities and investments and performance of the Scheme.
- (3) An interim report and accounts shall be filed with the Commission within three (3) calendar months from the end of the interim accounting period.
- (4) A listed Scheme shall send the interim report and accounts in compliance with the listing rules of the Exchange.
- (5) The interim report and unaudited accounts of a Scheme for a reporting period shall be published in the website of the Managing Company and the investors shall be informed of such fact by way of a newspaper advertisement within three (3) calendar month from the end of the interim accounting period.
- (6) The interim report and accounts of a Scheme shall be a stand-alone document and shall not contain any extraneous or financial promotional material.

52. Auditor of a Scheme

- (1) The Managing Company with the approval of the Trustee shall appoint an auditor who shall provide his services for the entirety of the financial year. The audit fees of the auditor shall be determined by the Managing Company with the approval of the Trustee.

- (2) An auditor shall be eligible to serve as an auditor of a Scheme if;
 - (a) the auditor has entered into a written agreement, to serve as the auditor to the Scheme;
 - (b) The auditor has disclosed to the Managing Company and Trustee of the Scheme that there is no impediment to his serving as auditor to the Scheme;
 - (c) the auditor is a member of the Institute of Chartered Accountants of Sri Lanka;
 - (d) the auditor has not been disqualified from auditing by any regulatory authority; and
 - (e) the auditor has not already served as auditor to the same Scheme for the previous five (5) years.
- (3) The auditor's report shall be reproduced in full in the annual audited report and accounts of the Scheme.
- (4) Where the auditor of a Scheme has reason to believe that:
 - (a) the information provided to Unit Holders or to the Commission in the reports or other documents of the scheme does not truly reflect the financial situation and the assets and liabilities of the Scheme;
 - (b) the assets of the Scheme are not, or have not been, invested in accordance with the provisions of this Code, the KIID or the trust deed;
 - (c) there exist circumstances which are likely to affect materially the ability of the Scheme to fulfil its obligations to unitholders or meet any of its financial obligations under this Code;
 - (d) there are material defects in the financial systems and controls or accounting records of the Scheme;
 - (e) there are material inaccuracies or omissions of a financial nature made by the Scheme to the Commission; and
 - (f) the auditor proposes to qualify any statements, which he is to provide in relation to financial statements or returns of the Scheme.

*The auditor shall immediately report such matter to the Commission in writing and in any case not later than two (2) weeks.
- (5) The auditor shall review the valuation policies and procedures adopted by the Managing Company in a Scheme as morefully contained in **Appendix 4** of this Code to ensure their acceptability.
- (6) The auditor shall, upon request by the Commission, furnish to the Commission a report stating whether, in his opinion and to the best of his knowledge, the Scheme has or has not complied with a specified financial obligation under this code.
- (7) The Managing Company shall bear the costs of any report required by the Commission under subsection (6).
- (8) The auditor may request the Commission to furnish him with particulars of any financial returns made to the Commission by or on behalf of a Scheme if he considers it necessary in order for him to perform his functions under this code more efficiently.
- (9) The auditor shall send to the Managing Company a copy of any report made by him to the Commission under subparagraph (6).
- (10) The Commission may require the auditor to furnish it with any information in relation to the audit of the affairs of the Scheme which, in the Commission's opinion, is necessary for the exercise of its functions under this Code for the protection of the interests of investors, and the auditor shall comply with such requirement without delay.

- (11) In furnishing information for purposes of subparagraph (10), the auditor shall act independently of the Scheme.
- (12) No auditor shall be liable to the Scheme, its Unit Holders or creditors for anything done in good faith in compliance with any obligation cast on him under this Code.
- (13) Subject to subparagraph (14) the Commission may direct a Managing Company to terminate the appointment of an auditor who has contravened any requirements under this code or any other applicable law in Sri Lanka.
- (14) The Commission shall not issue a direction under subparagraph (13) unless:
 - (a) the reasons for its decision have been disclosed; and
 - (b) the auditor and the Managing Company have been given an opportunity of being heard.
- (15) The Managing Company shall ensure that the auditor of a Scheme is invited to attend meetings of the Unit Holders and to receives any notice that may be sent to Unit Holders and be entitled to be heard at any such meeting pertaining to matters which affects the affairs of the auditor.

53. Co-operation with Auditors

- (1) A member of the board of directors of a Managing Company, a Trustee, or a Custodian of a Scheme and their respective officers, servants or shall not knowingly or recklessly make a statement to an auditor, whether written or oral, which conveys or purports to convey any information or explanation which is either:
 - (a) false, misleading or deceptive in a material particular; or
 - (b) contains any omission and such omission is likely to mislead or deceive the auditor.
- (2) A member of the board of directors of a Managing Company, a Trustee, a Custodian of a Scheme and their respective officers, servants or agents shall not engage in conduct that would result in:
 - (a) the, alteration, concealment or destruction of records;
 - (b) coercing, manipulating, misleading or influencing the auditor;
 - (c) preventing access to information or documents required by the auditor.

54. Transfer of a Scheme

A Scheme may be transferred in whole or in part by the Managing Company to another Scheme subject to the prior approval of the Commission.

55. Suspension of dealing and termination of a Scheme

- (1) The Managing Company may suspend the operations of a Scheme in circumstances morefully stated in the trust deed and/or the KIID.
- (2) The Managing Company shall:
 - (a) obtain the prior approval of the Trustee and the Commission;
 - (b) inform all Unit Holders once approval of the Trustee and the Commission have been obtained and explaining the reasons for such suspension.

56. Termination/Winding up of a Collective Investment Scheme

- (1) A Scheme shall be terminated or wound up upon the occurrence of any of the following events:
 - (a) the approval granted by the Commission to operate the Scheme is cancelled;
 - (b) the Unit Holders representing at least seventy-five per centum (75%) of the total Units in issue (excluding those held by the Managing Company) pass a special resolution to terminate or wind up the Scheme;
 - (c) the Scheme has completed its tenure or circumstances exist that warrants the termination/winding up of a Scheme as specified in the trust deed /KIID;
 - (d) the Managing Company and the Trustee are of the view that the value of the assets of the Scheme has fallen below an operationally viable level;
 - (e) the Commission in consultation with the Trustee and the Managing Company has directed the Trustee to wind up the Scheme since the value of the deposited property has fallen below an operationally viable level;
 - (f) upon an order made by a competent court.
- (2) When a decision to terminate/windup has been made, the Managing Company shall:
 - (a) cease all operational activities of the Scheme and cease the issuance, cancellation, sale redemption or the transfer of Units;
 - (b) prepare annual audited and interim unaudited accounts and reports up to the completion of the winding up process of the Scheme;
 - (c) ensure that no changes are made to the register of Unit Holders without the agreement of the Trustee and Custodian or as directed by a competent court;
 - (d) immediately notify all Unit Holders and the Commission of the commencement of proceedings to terminate/ wind up the Scheme and the circumstances leading to such termination/winding up; and
 - (e) publish a notice with the approval of the Trustee in three (3) daily newspapers in three (3) languages within (5) five days upon completion of such winding up and through the Trustee submit a report to the Commission setting out in detail the steps taken in such process.
- (3) When a decision to terminate/windup has been made, the Trustee shall:
 - (a) liquidate all the assets of the Scheme remaining in its custody;
 - (b) after paying all liabilities or retaining adequate amounts to meet such liabilities and the cost of winding up, distribute to Unit Holders the net cash proceeds available for the purpose of such distribution in proportion to the number of Units held by the Unit Holders respectively in accordance with these Rules;
 - (c) arrange for the auditor of the Scheme to conduct a final review and audit of the Scheme accounts and shall submit a copy of such report and accounts to the Unit Holders and the Commission within one (1) week upon the Trustee receiving such report and accounts.
- (4) Any unclaimed net proceeds or other cash held by the Trustee after the expiration of (12) twelve months from the date on which the same becomes payable shall be paid by the Trustee to the Public Trustee subject to the right of the Trustee to retain there from any expenses incurred by the Trustee in making such payment.

Appendix 1: Minimum Contents of a Trust Deed

The trust deed shall be prepared in compliance with the provisions and requirements set out in this Code. The Minimum contents of the trust deed are given below together with guidance notes. The parties shall ensure that no provision of the trust deed is in derogation with the requirements set out in this Code when preparing the trust deed.

- (1) Name of the Scheme
- (2) Classes of Units (*Refer Guidance Note 01*)
- (3) Types of investments of the Scheme
- (4) Duration of the Scheme
- (5) Permitted expenses of the Scheme
- (6) Distribution of Income
- (7) Transmission of Units
- (8) The responsibilities of the Trustee and the Managing Company to each other and to the Unit Holders
- (9) Conduct of meetings and the manner of voting at such meetings (*Refer Guidance Note 02*)
- (10) Statement to the effect that Unit Holders shall not be required to make any further payment or assume any further liability except in circumstances set out in such trust deed
- (11) Method of calculating the offer and redemption prices of Units
- (12) Circumstances in which the redemption of Units can be suspended
- (13) Maintenance of a register of Unit Holders
- (14) A statement to the effect that the consideration paid in respect of any duly created Units (less any charges that the Managing Company is entitled to retain) shall become the property of the Scheme immediately on receipt of such consideration by the Trustee.
- (15) Statement to the effect that a certificate in respect of Units or a relevant electronic entry is made in the register of Unit Holders of a depository of a Exchange to a Unit Holder only on the Trustee being satisfied that the consideration paid for such units (less any charges that may be retained by the Managing Company) has been, or will be vested in the Trustee
- (16) Minimum initial investment in Units permitted
- (17) Maximum initial charge which can be levied on the purchase of Units
- (18) Determination of Net Asset Value (NAV) of Units
 - (a) *Refer Guidance Note 3 (A)* for the determination of the NAV of single price Schemes
 - (b) *Refer Guidance Note 3 (B)* for the determination of the NAV of dual price Schemes
- (19) The obligation requiring the Trustee, the Managing Company and their related persons to disclose their interests when making investment decisions in securities of companies or other asset classes in which they have a material interest
- (20) A provision enabling the appointment of auditors and connected matters
- (21) A statement prohibiting the Trustee from retiring until a new Trustee is appointed

- (22) A statement prohibiting the Managing Company from entering into any underwriting or sub underwriting contract on behalf of a Scheme, except with the prior approval of the Trustee and the Commission
- (23) Prohibit the making or granting of loans out of the Scheme property except with the consent of the Trustee
- (24) Provides approval in writing for the Trustee for any transaction between the Managing Company or any related person of the Managing Company and the Scheme
- (25) Provides for a deposit of security by the trustee guaranteeing against loss due to misconduct or negligence, where required by the commission.
- (26) Details pertaining to Trustee's remuneration
- (27) Details pertaining to the Managing Company's fees
- (28) Statement to the effect that the Trustee and the Managing Company shall ensure compliance with the CIS Code and the directives that may be issued from time to time
- (29) Such other information as the Commission may require from time to time

Guidance Note 01 - Classes of Units

- (1) List classes of Units and state any differences between the rights of the differing classes of Units and set out any additional rights the classes of Units may be denominated in different currencies, may bear different charges of whatever nature (initial, annual, exit or otherwise), may differ as to limitations on issue and/or redemption (if so, state the basis on which any limited or deferred redemption arrangements or limited issue arrangements may apply), and/or as to minimum investment and/or minimum holding level requirements.
- (2) Set out the basis for the distribution or re-investment of income in respect of any class of Units in issue e.g. state whether Units are accumulation Units or income Units.
- (3) Where relevant, for a Scheme, if investment in an overseas immovable is to be made through an intermediate holding vehicle or a series of intermediate holding vehicles, include a statement that the purpose of that intermediate holding vehicle or series of intermediate holding vehicles will be to enable the holding of overseas immovable by such Scheme.
- (4) Where a Scheme is to be a Money Market Scheme, include statements that:
 - (a) The Scheme is a Money Market Scheme;
 - (b) The primary investment objective is to maintain the Net Asset Value (NAV) of the undertaking [constant at par (net of earnings)] [at the value of the investors' initial capital plus earnings];
 - (c) With a view to achieving this primary investment objective, the Scheme shall invest exclusively in high quality (in terms of liquidity, credit quality, the nature of the asset etc.) money market instruments with a maturity or residual maturity of no more than 397 days, or regular yield adjustments consistent with such a maturity, and with a weighted average maturity of no more than 210 days; it may also invest with the same view on an ancillary basis in deposits with credit institutions; and
 - (d) The Scheme provides same day or next day settlement.

Guidance Note 02 : Voting at Meetings

- (1) A resolution put to the vote of a general meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded by the chairman of the meeting or by not less than two (2) holders or by the Trustee. A demand by a proxy is deemed to be a demand by the member appointing the proxy. The chairman shall exercise his power to demand a poll if requested to do so by the Managing Company.
- (2) The entitlement to vote at any meeting of holders or class meeting attaching to each Unit is in accordance with this Code. On a show of hands every Unit Holder who is present in person has one (1) vote. On a poll, votes may be given either personally or by proxy or in any other manner (including the use of ballot papers or electronic or computer voting systems) as the chairman of the meeting may direct and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded. The chairman of the meeting may (and, if so directed by the meeting, shall) appoint scrutineers and may adjourn the meeting to some place and time fixed by him for the purpose of declaring the result of the poll.
- (3) Where a receiver or other person (by whatever name called) has been appointed by any court claiming jurisdiction in that behalf to exercise powers with respect to the property or affairs of any Unit Holder on the ground (however formulated) of mental disorder, the Managing Company may in its absolute discretion upon or subject to production of such evidence of the appointment as the Managing Company may require, permit such receiver or other person on behalf of such Unit Holder to vote on a poll in person or by proxy at any meeting of Unit Holders or class meeting or to exercise any right other than the right to vote on a show of hands conferred by ownership of Units in relation to such a meeting.
- (4) No objection shall be raised as to the admissibility of any vote except at the meeting or adjourned meeting at which the vote objected to be or may be given or tendered and every vote not disallowed at such meeting shall be valid for all purposes. Any such objection shall be referred to the chairman of the meeting whose decision shall be final and conclusive.
- (5) An instrument appointing a proxy shall be in writing in any usual or common form or in any other form which the Managing Company may approve or in its absolute discretion accept (including as to how it may be signed or sealed). The signature on such instrument need not be witnessed. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof shall (failing previous registration with the Managing Company) be lodged with the instrument appointing the proxy pursuant to the next following Clause, failing which the instrument may be treated as invalid.
- (6) An instrument appointing a proxy shall be left at or delivered to such place or one of such places (if any) as may be specified for the purpose in or by way of note to or in any document accompanying the notice convening the meeting (or, if no place is so specified, to or at the Managing Company's head office) by the time which is 48 hours before the time appointed for the holding of the meeting or adjourned meeting or (in the case of a poll taken otherwise than at or on the same day as the meeting or adjourned meeting) for the taking of the poll at which it is to be used and, in default, may be treated as invalid. The instrument appointing a proxy shall, unless the contrary is stated thereon, be valid as well for any adjournment of the meeting as for the meeting to which it relates.
- (7) A vote cast by proxy shall not be invalidated by the previous death or bankruptcy of the principal or by other transmission by operation of law of the title to the Units concerned or by the revocation of the appointment of the proxy or of the authority under which the appointment of the proxy was made provided that no intimation in writing of such death, insanity or revocation shall have been received by the Managing Company at its head office by the time which is two (2) hours before the commencement of the meeting or adjourned meeting or (in the case of a poll taken otherwise than at or on the same day as the meeting or adjourned meeting) the time appointed for the taking of the poll at which the vote is cast.
- (8) Any corporation which is a Unit Holder in the Scheme may by resolution of the directors or other governing body of such corporation and in respect of any Unit or Units in the Scheme of which it is the Unit Holder authorise such individual as it thinks fit to act as its representative at any general meeting of the Unit Holders or of any class of Unit Holders. The individual so authorised shall be entitled to exercise the same powers on behalf of such corporation as the corporation

could exercise in respect of such Unit or Units if it were an individual Unit Holder in the Scheme and such corporation shall for the purposes of this Deed be deemed to be present in person at any such meeting if an individual so authorised is so present.

Guidance Note 3 (A)

Determination of Net Asset Value [SINGLE PRICED SCHEMES]

The value of the property of the Scheme shall be the value of its assets less the value of its liabilities determined in accordance with the following provisions:

- (1) All the property of the Scheme (including receivables) is to be included, subject to the following provisions.
- (2) Property which is not cash (or other assets dealt with in paragraph 3 below) shall be valued as follows and the prices used shall (subject as follows) be the most recent prices which it is practicable to obtain:
 - (a) Units or shares in a Scheme:
 - (i) if a single price for buying and selling Units or shares is quoted, at that price; or
 - (ii) if separate buying and selling prices are quoted, at the average of the two (2) prices provided the buying price has been reduced by any initial charge included therein and the selling price has been increased by any exit or redemption charge attributable thereto; or
 - (iii) if, in the opinion of the Managing Company, the price obtained is unreliable or no recent traded price is available or if no recent price exists, at a value which, in the opinion of the Managing Company, is fair and reasonable;
 - (b) immovable property:
 - (i) by a valuer in accordance with the provisions of this Code;
 - (ii) on the basis of a full valuation with physical inspection (including, where the immovable is or includes a building, internal inspection), at least once a year; and
 - (iii) on the basis of the last full valuation, at least once a month.
 - (c) exchange-traded derivative contracts:
 - (i) if a single price for buying and selling the exchange-traded derivative contract is quoted, at that price; or
 - (ii) if separate buying and selling prices are quoted, at the average of the two (2) prices.
 - (d) over-the-counter derivative contracts shall be valued in accordance with the method of valuation as shall have been agreed between the Managing Company and the Trustee;
 - (e) any other investment:
 - (i) if a single price for buying and selling the security is quoted, at that price; or

- (ii) if separate buying and selling prices are quoted, at the average of the two (2) prices; or
 - (iii) if, in the opinion of the Managing Company, the price obtained is unreliable or no recent traded price is available or if the most recent price available does not reflect the Managing Company's best estimate of the value, at a value which, in the opinion of the Managing Company, is fair and reasonable; and
 - (f) property other than that described in [(a), (b), (c), (d) and (e)] above: at a value which, in the opinion of the Managing Company, represents a fair and reasonable mid-market price.
- (3) Cash and amounts held in current, deposit and margin accounts and in other time-related deposits shall be valued at their nominal values.
 - (4) In determining the value of the scheme property, all instructions given to issue or cancel units shall be assumed (unless the contrary is shown) to have been carried out and any cash payment made or received and all consequential action required by the Code or the trust deed shall be assumed (unless the contrary has been shown) to have been taken.
 - (5) Subject to paragraphs 6 and 7 below, agreements for the unconditional sale or purchase of property which are in existence but uncompleted shall be assumed to have been completed and all consequential action required to have been taken. Such unconditional agreements need not be taken into account if made shortly before the valuation takes place and, in the opinion of the Managing Company, their omission shall not materially affect the final net asset amount.
 - (6) Futures or contracts for differences which are not yet due to be performed and unexpired and unexercised or purchased options shall not be included under paragraph 5.
 - (7) All agreements are to be included under paragraph 5 which are, or ought reasonably to have been, known to the person valuing the property assuming that all other persons in the Managing Company's employment take all reasonable steps to inform it immediately of the making of any agreement.
 - (8) Deduct an estimated amount for anticipated tax liabilities (on unrealised capital gains where the liabilities have accrued and are payable out of the property of the Scheme; on realised capital gains in respect of previously completed and current accounting periods; and on income where liabilities have accrued) including (as applicable and without limitation) [capital gains tax, income tax, corporation tax, value added tax, stamp duty].
 - (9) Deduct an estimated amount for any liabilities payable out of the property of the Scheme and any tax thereon treating periodic items as accruing from day-to-day.
 - (10) Deduct the principal amount of any outstanding borrowings whenever payable and any accrued but unpaid interest on borrowings.
 - (11) Add an estimated amount for accrued claims for tax of whatever nature which may be recoverable.
 - (12) Add any other credits or amounts due to be paid into the property of the Scheme.
 - (13) Add a sum representing any interest or any income accrued due or deemed to have accrued but not received and any stamp duty reserve tax provision anticipated to be received.
 - (14) Currencies or values in currencies other than the base currency shall be converted at the relevant valuation point at a rate of exchange that is not likely to result in any material prejudice to the interests of Unit Holders or potential Unit Holders.

Guidance Note 3 (B)

Determination of Net Asset Value [DUAL PRICED SCHEMES]

The value of the property of the Scheme shall be the value of its assets less the value of its liabilities determined in accordance with the following provisions.

- (1) All the property of the Scheme (including receivables) is to be included, subject to the following provisions.
- (2) The valuation of the property of the Scheme shall consist of two parts, one on an issue basis and one on a cancellation basis calculated in accordance with the following provisions.

The valuation of property for that part of the valuation which is on an issue basis is as follows:

Property which is not cash (or other assets dealt with in paragraphs 3 and 4 below) shall be valued as follows and the prices used shall (subject as follows) be the most recent prices which it is practicable to obtain:

(a) Units or shares in a Scheme:

- (i) if a single price for buying and selling units or shares is quoted, at that price plus any dealing costs (as defined below), any preliminary charge payable by the Scheme on the purchase of the units or shares, and any dilution levy or any stamp duty reserve tax provision which would be added in the event of a purchase by the Scheme of the units or shares in question (except that, where the Managing Company, or an associate of the Managing Company, is also the Managing Company or authorised corporate director of the collective investment scheme whose units or shares are held by the Scheme, the valuation shall not include any preliminary charge payable in the event of a purchase by the Scheme of those units or shares); or
- (ii) if separate buying (offer) and selling (bid) prices are quoted, at the buying price, less any expected discount plus any dealing costs (as defined below), but where the Managing Company, or an associate of the Managing Company, is also the Managing Company or authorised corporate director of the collective investment scheme whose units or shares are held by the Scheme, the issue price shall be taken instead of the buying price; or
- (iii) if, in the opinion of the Managing Company, the price obtained is unreliable or no recent traded price is available or if no recent price exists or if the most recent price available does not reflect the Managing Company's best estimate of the value, at a value which, in the opinion of the Managing Company, is fair and reasonable.

(b) immovable property:

- (i) by a valuer in accordance with the provisions of this Code
- (ii) on the basis of a full valuation with physical inspection (including, where the immovable is or includes a building, internal inspection), at least once a year; and
- (iii) on the basis of the last full valuation, at least once a month;

(c) exchange-traded derivative contracts:

- (i) if a single price for buying and selling the exchange-traded derivative contract is quoted, at that price; or
- (ii) if separate buying and selling prices are quoted, at the average of the two prices.

(d) over-the-counter derivative contracts shall be valued in accordance with the method of valuation as shall have been agreed between the Managing Company and the Trustee;

- (e) any other investment:
 - (i) the best available market dealing offer price on the most appropriate market in a standard size (plus any dealing costs, (as defined below)); or
 - (ii) if, in the opinion of the Managing Company, the price obtained is unreliable or no recent traded price is available or if the most recent price available does not reflect the Managing Company's best estimate of the value, at a value which, in the opinion of the Managing Company, is fair and reasonable; and
 - (f) property other than that described in [(a), (b), (c) and (d)]/[(a), (b), (c), (d) and (e)] above: at a value which, in the opinion of the Managing Company, is fair and reasonable (plus any dealing costs (as defined below)).
- (3) Cash and amounts held in current, deposit and margin accounts and in other time related deposits shall be valued at their nominal values.
 - (4) In determining the value of the property of the Scheme, all instructions given to issue or cancel units shall be assumed (unless the contrary is shown) to have been carried out and any payment made or received and any consequential action required by the Codes or the trust deed shall be assumed (unless the contrary has been shown) to have been taken.
 - (5) Subject to paragraphs 6 and 7 below, agreements for the unconditional sale or purchase of property which are in existence but uncompleted shall be assumed to have been completed and all consequential action required to have been taken. [Such unconditional agreements need not be taken into account if made shortly before the valuation takes place and, in the opinion of the Managing Company, their omission shall not materially affect the final net asset amount.]
 - (6) Futures or contracts for differences which are not yet due to be performed and unexpired and unexercised written or purchased options shall not be included under paragraph 5.
 - (7) All agreements are to be included under paragraph 5 which are, or ought reasonably to have been, known to the person valuing the property assuming that all other persons in the Managing Company's employment take all reasonable steps to inform it immediately of the making of any agreement.
 - (8) Deduct an estimated amount for anticipated tax liabilities (on unrealised capital gains where the liabilities have accrued and are payable out of the property of the Scheme; on realised capital gains in respect of previously completed and current accounting periods; and on income where liabilities have accrued) including (as applicable and without limitation) capital gains tax, income tax, corporation tax, value added tax, stamp duty and stamp duty reserve tax.
 - (9) Deduct an estimated amount for any liabilities payable out of the property of the Scheme and any tax thereon treating periodic items as accruing from day-to-day.
 - (10) Deduct the principal amount of any outstanding borrowings whenever payable and any accrued but unpaid interest on borrowings.
 - (11) Add an estimated amount for accrued claims for tax of whatever nature which may be recoverable.
 - (12) Add any other credits or amounts due to be paid into the property of the Scheme.
 - (13) Add a sum representing any interest or any income accrued due or deemed to have accrued but not received and any stamp duty reserve tax provision anticipated to be received.
 - (14) Currencies or values in currencies other than the base currency shall be converted at the relevant valuation point at a rate of exchange that is not likely to result in any material prejudice to the interests of Unit holders or potential Unit holders.

*"dealing costs" means any fiscal charges, commission or other charges payable in the event of the Scheme carrying out the transaction in question (but excluding any preliminary charge payable by the Scheme on the purchase of units or shares), assuming that the commission and charges (other than fiscal charges) which would be payable by the Scheme are the least that could reasonably be expected to be paid in order to carry out the transaction.

Appendix 2: Guidelines on Collective Investment Scheme advertisements and promotional material

(1) DEFINITIONS

Unless otherwise defined, words and expressions used in this set of Guidelines on Collective Investment Scheme Advertisements and/or Promotional Materials are as defined in the Securities and Exchange Commission of Sri Lanka Act No. 19 of 2021 and the Collective Investment Scheme (CIS) Code 2022 (the Code).

These Guidelines are in addition to, and not a derogation from, the duties and responsibilities which are otherwise imposed by law.

(2) INTRODUCTION

- (a) The Guidelines on Scheme advertisements and promotional materials set out the requirements to be complied with by any person who issues advertisements and/or promotional materials for the Scheme. The Securities and Exchange Commission of Sri Lanka (SEC) has promulgated the following Guidelines for the assistance of all issuers of Scheme advertisements and/or promotional materials and to provide a regulatory environment that protects the interests of the investing public.
- (b) The issuers of advertisements and/or promotional materials are expected to be guided by the spirit, as well as the content of these Guidelines and they shall not be departed from without sufficient cause. In addition, while the notes and examples enumerated as guidance are primarily intended for illustrative purposes.
- (c) Issuers are responsible for the contents of advertisements and the monitoring of their publication / distribution of the Scheme. Under no circumstances may an issuer disclaim its liabilities in respect of the accuracy of the contents of its advertisements.
- (d) Advertisements and/or promotional material shall not be so framed as to exploit the lack of experience or knowledge of the investors. As the investors may not be sophisticated in legal or financial matters, care shall be taken that the advertisement is set forth in a clear, concise, and understandable manner.
- (e) No statement made in an advertisement, report or in announcements to Unit Holders, the public, the press or other communication media, may be attributed to any person, unless such person has given consent in writing for such statement to be attributed to such person, in the context in which it appears.
- (f) For the purposes of these Guidelines a Key Investor Information Document (KIID) shall not be deemed to be an advertisement.
- (g) Advertisement and/or promotional materials include any document, report, newspaper, website or periodical and any material disseminated, intended or apparently intended, to advertise or promote a CIS. Examples of publication medium include but are not limited to, the following:
 - (i) Published distribution materials (e.g. print media advertisements, brochures, fact sheets, newsletters, magazines, journals or periodicals);
 - (ii) Display of posters, banners, notices, signs, billboards on the company's website or outdoor displays;
 - (iii) Letters, circulars, newsletters, brochures or pamphlets;
 - (iv) Sound broadcasting, film or television; and

- (v) Interactive systems such as internet, interactive voice messages, telephone, facsimile, computer transmission or other electronic transmission.
- (h) A Managing Company in issuing or selling any Unit of a Scheme shall not directly or indirectly represent or imply in any manner that;
- (i) such Units have been sponsored, recommended or approved by the Commission; or
 - (ii) the contents of any memorandum or advertisements issued by such Managing Company have been guaranteed by the Commission.
- (i) The Advertisement and/or promotional material submitted may be varied, altered or rejected by the Commission as it deems fit.
- (j) The Commission reserves the right to comment or stop any advertisement so filed from being published.
- (k) The SEC may take appropriate actions against persons who fail to comply with or observe any of the provisions in these Guidelines as are permitted under the SEC Act and / or other relevant provisions under the Code or rules pertaining to a Managing Company.

3 CONTENTS OF ADVERTISEMENTS AND PROMOTIONAL MATERIALS

GENERAL PRINCIPLES

- (a) The advertisement and/or promotional material shall be based on principles of good faith and fair dealing.
- (b) An advertisement or promotional material shall not in any way mislead or deceive a prospective investor and shall contain information that is timely and consistent with its KIID.

Guidance

- In applying this principle, issuers shall note that a prospective investor cannot be expected to have any special understanding of the matters contained in the advertisement and/or promotional material.
 - Issuers shall be aware that validity of a statement will depend on its contextual setting – a statement made in one context may be misleading even though the same statement may be appropriate in another context.
 - Issuers shall avoid the exaggeration of certain incidental features of the Scheme which may distort the Scheme and mislead investors.
 - Issuers shall also note that different levels of explanation or details may be necessary for different investors with varying knowledge of the Scheme.
 - Issuers shall present the most up-to-date information e.g. Net Asset Value (NAV) or returns. For example, a disclosure of NAV of the Scheme which is more than six (6) months old (at date of publication), with the intention of publishing a more favourable level of NAV could result in investors being misinformed.
- (c) As the exaggeration of certain incidental features may distort the Scheme and mislead investors, no due prominence shall be given to any incidental feature (e.g. free insurance coverage, free consumer goods etc.) in any advertisement and/or promotional material. An advertisement and/or promotional material shall stress on fund information and not the incidental features.

- (d) As such the issuers shall ensure that no hidden or additional costs are imposed on investors with such promotions on incidental features.
- a) The principles of honesty and greatest possible accuracy shall underpin all advertisements and/or promotional materials. In this regard, dishonesty or inaccuracy can result from exaggerations, omissions or implications of certain statements contained in the advertisement and/or promotional material. Issuers shall also note that selective emphasis of certain features may create a certain bias towards the presentation of the material which may be misleading.

Guidance

In preparing an advertisement and/or promotional material, issuers shall bear in mind that inherent in investments are the risks of fluctuating prices and the uncertainty of dividend distributions, rates of return and yield. Accordingly statements about possible benefits connected with investing shall be “counter-balanced” with risks/limitations associated therewith.

- (e) Care and attention shall always be paid to overall impression of the advertisement and/or promotional material.

4 LANGUAGE AND GRAPHICS

- (a) The use of ambiguous or industry terms which are not explained in simple language that are not readily understood by the public at large, shall be avoided wherever possible.

Guidance

Issuers of advertisements and/or promotional materials shall be aware that a statement made in an unclear manner may result in a lack of understanding or even a serious misunderstanding. A complex or overly technical explanation may be worse than too little communication.

- (b) A statement of opinion regarding a Scheme or a Managing Company shall be reasonable and, where possible, can be verified. Any testimonial quoted or referred to in an advertisement and/or promotional material shall be relevant, factual and attributable to an independent source. The source and date of testimonial quoted or referred to shall also be disclosed.

Guidance

Phrases such as “best performing” or “first” may only be used if attributable to an independent source and the document and/or source of information concerned is readily available for investors for verification.

- (c) An advertisement and/or promotional material shall not give an investor the impression that his capital is secure or his income/profit is guaranteed or that such a rate of return is certain, unless appropriate.

Guidance

- Words such as “secure”, “guaranteed”, “safe”, “risk-free”, “protected”, “warranty”, “likely” and “promise” shall not be used in an Advertisement and/or Promotional Material, unless otherwise appropriate.
- The terms “low risk” or “minimal risk” shall only be used relative to an alternative form of investment.
- The statement that “ABC Scheme is backed by XYZ” shall not be used unless XYZ actually guarantees the Scheme against losses or guarantees the return.

- (d) An advertisement and/or promotional statement shall not give an investor the impression that his investment will always increase in value. In addition, the language shall avoid implying urgency or emergency. The words and context shall not pressurise the reader into investing within a certain time frame or by a certain time.

Guidance

- statements such as “Get rich quick”, “Your investment will grow from strength to strength”, “greater wealth awaits you”, and “you too can be rich” shall be avoided.
- Statements such as, “Invest now before it is too late”, “This is the right time to buy” or “buy now before it is too late” or variations of such phrases shall not be used.
- Statements such as “Hurry offer period ends on.....” or “Hurry before the special promotion ends on ...” shall be avoided.
- “Hurry, the Scheme will be paying out a dividend by the end of” shall be avoided.

- (e) An advertisement or promotional material shall not be definitive or in an unreasonably promising language in its representation of outcome of investing in the Scheme.

Guidance

The following statements or promising language are not permissible:

- “you will reap returns”
- “you become a winner”
- “you gain every advantage from investing”
- “high rewards awaits you”
- “you will more likely than not to make gains from your investment”

- (f) Direct forecasts or projections of future performance of a Scheme shall not be made. Any statement that indirectly relates to the future performance of a Scheme shall allow for uncertainty in the market and shall not be made in certain terms.

Guidance

The following statements are not permissible:

- “ABC Scheme is expected to achieve 8% growth this year”
- “ABC Scheme will achieve good/excellent/attractive results for you at minimal risk”
- “ABC Scheme will provide an excellent hedge against inflation”
- “ABC Scheme will offer investors a rate of return better than that of fixed deposits or savings”

The following statements are permissible:

- “Our Scheme managers will seek to maximise your returns”
- “ABC Scheme hopes to provide you with a reasonable hedge against inflation”
- “ABC Scheme seeks to present you with the opportunity to earn attractive returns at an acceptable level of risk”.

- (g) Involvement of regulatory authorities in the industry shall only be stated in a factual manner and not give investors the impression that their investments are safe/secure. In particular an advertisement and/or promotional material shall not imply that the regulatory authorities have taken responsibility for the financial soundness of the Scheme or of the Managing Company or that the regulatory authorities recommend the Scheme or that statements and opinions expressed are true/accurate.
- (h) An advertisement and/or promotional material shall not seek to denigrate a Scheme's competitors in such a way as might lower the reputation of the industry or use language or artwork that would be considered by a reasonable person to be in poor taste.

(5) COMPARISON

- (a) Comparisons made between two (2) or more Schemes or between two (2) or more alternative investments, shall be fair, reasonable, accurate and based on similar time periods. Material differences between the subjects of comparison shall be highlighted.
- (b) When a Scheme is compared to an Index, such Index shall be the benchmark for the Scheme as disclosed in the KIID. A comparative index once adopted shall be applied consistently and any change shall be supported by adequate justification.
- (c) When graphs are shown it shall be clearly presented without distortion.

Guidance

- It is essential that a comparison be as complete as is practicable and that no fact be omitted which if disclosed would likely alter the conclusions reasonably drawn or implied by the comparison
- Comparisons with alternative investments or savings vehicles shall explain clearly any relevant difference in guarantees, fluctuation of principal and/or return and any other factor necessary to make such comparisons fair and not misleading
- Any performance comparison shall be fairly and accurately based on reports published by an independent organisation or independently commissioned. Any external source of such material shall be identified and disclosed. Where only extracts of the report is highlighted, that which is highlighted shall not be unfair nor misleading. The excluded information shall not cause the included information to appear exaggerated.
- Only the investment performance of Schemes with similar investment objectives, can be compared in order to ensure that there is "like with like" comparison.

6 INVESTMENT PERFORMANCE

- (a) Performance figures quoted or referred to in an advertisement and/or promotional material shall be factual information, sourced independently or verified independently.
- (b) Equity Schemes

Performance figures for periods less than one year shall be limited to year to date (calendar year) performance or financial year to date performance. However, short-term performance figures for periods of one (1) month, three (3) months and six (6) months may be permitted if presented together with the year to date performance and the performance of the relevant benchmarks. For performance figures since inception, the cumulative growth since inception and the annualised growth rate together with the relevant benchmark performance shall be published.

(c) Money Market Schemes

Current yields can be published only for Money Market Schemes and it shall cover a minimum period of at least seven (7) days.

Basis of Calculation of Current Yields

$$\text{Current Yield} = \{(P/P-7)-1\} \{365 \times 100 / 7\}$$

P = net asset value per unit as at date

P-7 = net asset value per unit 7 days ago

(d) Other Income Schemes

Performance figures for a period less than one year shall be limited to year to date (calendar year) performance or financial year to date performance and shall not be annualised. However, short term performance for periods of one (1) month, three (3) months and six (6) months may be considered if presented together with the year to date performance and the performance of the relevant benchmarks. In case of performance figures since inception, it shall be Compound Annual Growth Rate up to the date of calculation.

(e) All performance information shall be referenced to the sources and dated.

Guidance

- In general the appropriate time periods for illustration of results are those which are of sufficient duration that the data can be meaningfully appreciated. The selection of a specific time period, solely for the purpose of illustrating performance “at its best”, is likely to mislead or provide bias to the presentation of information and would therefore not be appropriate as this would result in an investment decision made on incomplete information.
- Investment performance data (Current Yield) for Money Market Schemes shall be up to date. All other performance data shall be up to a recent reference date based on the last calendar year end date or the last financial year end date of the Scheme.
- Performance benchmarks used in the promotional material shall be relevant, appropriate, widely recognised and constructed by an independent party.

(f) Performance figures displayed shall be actual rather than hypothetical/simulated results which cannot be annualised except for income Schemes.

Guidance

- Issuers shall endeavour to present performance results in a manner which is clear and shows that within the longer periods illustrated, there have been short term fluctuations. No single period of any length is to be taken as “typical” of what may be expected in future periods.

(g) Graphs tables and other diagrams used shall be presented without distortion. Figures shown on graphs shall be fair representation of the position.

Guidance

- In selecting a format for the presentation of performance results, consideration shall be given not only to the completeness and accuracy of the data but also to the clarity and meaningfulness of the

overall presentation. Careful consideration shall be given to the visual impact of data presented as the reader may not go beyond a scanning of the trends depicted.

- Furthermore while a summary of investment results is often necessary in order to make the advertisement and/or promotional material readable and understandable it shall be recognised that the reader may not look beyond the summary data presented. Consequently issuers shall take into account that the summary data shall be fair in all respects and not likely to mislead either directly or by distracting the reader from other necessary information.

- (h) The basis of computation of performance figures shall comply with either Global Investment Performance Standards or Industry Standards.

(7) WARNING STATEMENTS

Warning statements shall be clearly displayed in all advertisements and/or promotional materials to the following effect:

- Where past performance is quoted, the past performance of a Scheme shall not be taken as indicative of its future performance;
- Where current yield is specified, “the current yield is variable and subject to change” shall be stated;
- Warning statements shall be highlighted and generally printed in a font size that is easily readable;
- Furthermore, where the warning statements are submerged by the preponderance of written text, warning statements may be boxed.

In addition to the above, the following warning statements shall be clearly printed in all printed brochures and leaflets:

- Investors are advised to read and understand the contents of the KIID before investing. Among others, investors shall consider the fees and the charges involved;
- In the event if the advertisement is to contain the price of Units/shares and dividends payable, if any, it shall be clearly stated that the price of Units / shares may go down as well as up and the dividend payable may change;
- Sufficient prominences shall be given to any necessary qualification or condition for investing in a particular Scheme; and
- The Managing Company may state that the Scheme is approved by the Commission.

Where a Unit/Share Split is declared, investors shall be informed of the fact that the value of their investment in Rupees will remain unchanged after the distribution of the additional Units/shares.

(8) ADVERTISEMENTS BY WAY OF COMPUTER TRANSMISSION

These Guidelines apply to advertisements issued by way of computer transmission. Amongst others, such advertisements shall draw attention to the KIID of the Scheme.

(9) ADVERTISEMENTS ON RADIO, TELEVISION OR CINEMA

Generally, these Guidelines also apply to advertisements on the radio, television or cinema. In this case, only the scripts for the advertisement are required to be submitted to the SEC for perusal. Notwithstanding this, more care and attention shall be given to the overall impression of the actual advertisements; this information shall be contained in a voice-over at the end of each broadcast.

For visual advertisements warning statements shall be displayed for such time as to be sufficiently prominent to allow the viewer to read the entire text of the disclosure with reasonable ease.

Appendix 3: Key Investor Information Document (KIID)

The KIID constitutes the fundamental base of information for the subscribers to Units of a Scheme and shall be reviewed and updated by the Scheme as it becomes necessary. Whenever, the KIID is amended, a copy of the addendum shall be submitted to the commission for its approval.

Information under all headings shall be completed in accordance with the requirements of this Appendix, the Code and any specific requirements of the SEC Act, including any regulations made there under. The information shall be presented in a clear manner that will facilitate reading and understanding by the investors.

The information required by this Appendix constitutes a minimum and the scheme may add other information so long as it is not misleading and is designed to increase the comprehension of the investment being proposed.

In the case of a family of schemes, the KIID may be divided into difference parts. For example, specific information about each scheme in the family could be in the first part and general information that applies to all the schemes could be in the last part of the KIID. Also, in the first part, general information on schemes shall be given to assist the investor to understand that type of investment and the risks involved.

The KIID shall contain a declaration by the Trustee certifying that they have read and agreed with the representations contained therein.

The KIID shall also contain a declaration by the board of Directors of the Managing Company in the following form:

“This KIID has been seen and approved by the board of directors of the Managing Company and we collectively and individually accept full responsibility for the accuracy of the information given and confirm that, after making all reasonable inquiries and to the best of our knowledge and belief, there are no facts, the omission of which, would make any statement herein misleading”.

The KIID shall include full disclosure of the information required by the investors to make a decision on the investment.

The KIID shall be reviewed by the Managing Company at least every two years and revised where material to take account of any change or any new matter.

1: Introduction to and about the Scheme

- (a) General information concerning the Scheme, indicating its principle sphere of activity defined by the Scheme:
 - (i) The full name and type of the Scheme; and
 - (ii) If the Scheme is an open-ended / close-ended / interval scheme and classified as a growth / balanced / income Scheme.
- (b) Type of investors
 - (i) The type of investors for whom Units of the Scheme would be suitable shall be stated.

2: Investment objectives, risk profile and distribution of the Scheme

- (a) Investment Objectives

The fundamental investment objectives of the Scheme shall be stated, and the types of securities in which the Scheme

proposes to invest (shares, bonds, money market instruments etc.), as well as investment policies and practices of the Scheme in pursuing its objectives shall be stated.

(b) Risk

An explanation of nature of the risks, including minimum / maximum exposure to the stock market, sensitivity to rate of interest risk, concentration risk, investment in illiquid securities risk etc. shall be provided.

(c) Dividends or Distributions

- (i) The amount of dividends or other distributions, if any, paid by the scheme including income distributed by way of dividend reinvestment, during its last three (3) completed financial years preceding the date of the KIID or trust deed shall be stated.
- (ii) In the case of a new Scheme there shall be an explanation of when and how the gains of the scheme will be distributed, if applicable.

3: Purchases and redemptions

(a) Purchase of Units

- (i) An explanation for the procedure (application form / KYC / Identification etc.) for purchase of Units of the Scheme including the places where purchase orders are received by the Scheme shall be stated.
- (ii) If applicable, there shall be an indication whether a minimum purchase is required.

(b) Redemption of Units

An explanation of the procedure (cut off time for acceptance of redemption request during the day, modes of making a redemption request, disclosure of any limits imposed on redemption within one day, methods of settlement of redemption proceeds etc.) for redemption of units of the scheme shall be stated.

(c) Purchase / Redemption charges

The purchase and redemption charge as a percentage of net investment or of the redemption price shall be stated. Where investors have a choice between different types of payment of charges (front load, no load, back load etc.), an explanation of each type in detail and an indication of the effect on return on investment of the choice made shall be provided.

4: Reports and accounts

Details of the reports to be sent to the Unit Holders of the Scheme with applicable periods and modes of accessibility to such reports shall be provided.

5: Management fees and other fees and charges to the Scheme

The following information shall be provided:

- (a) The method used for calculation of management fees, taking into account the various components and any other information in accordance with this Code shall be stated. The fee shall be specified as a percentage of the NAV of the Scheme;
- (b) The method used for calculation of Trustee fees shall be stated. The fee shall be specified as a percentage of the NAV of the Scheme;

- (c) Any expenses or disbursements of the custodian which are authorised by the trust deed of Scheme to be paid out of the assets of the Scheme;
- (d) The cost of dealing in the assets of the Scheme;
- (e) Interest on borrowing permitted under the Scheme and charges incurred in effecting or varying the terms of such borrowings;
- (f) The costs and expenses incurred in obtaining a listing of the shares of the Scheme on any licensed securities exchange;
- (g) The fees and expenses of the auditor of the Scheme;
- (h) The costs incurred in respect of the distribution of income to investors;
- (i) The costs reasonably incurred in respect of the publication of prices of Units and in respect of the publication and distribution of the Scheme KIID or trust deed, annual and interim reports and accounts;
- (j) Any costs incurred in preparation or the modification of the trust deed of the Scheme;
- (k) Any other costs, incidental to its operation that may be charged to the Scheme;
- (l) Any change in annual charges of the Managing Company;
- (m) any expenses or disbursements of the Trustee, which are authorized by the trust deed to be paid out of the assets of the Scheme;
- (n) fees payable to the Commission in respect of obtaining approval for a Scheme;
- (o) legal expenses incurred in safeguarding the assets of the Scheme;
- (p) in case of an ETF tracking the price of gold or price of any other commodity or an index approved by the Commission, recurring expenses incurred towards storage and handling of gold or such other commodity; and
- (q) any other fee approved by the Commission and specified in the trust deed.

*Commissions paid to agents shall not be paid out of the assets of the Scheme.

6: Tax Liability of the Scheme

Details of income and capital gain taxes applicable to the investors in the Scheme shall be provided.

7: Information

- (a) Trust deed of the Scheme: Information as to where a subscriber shall obtain the trust deed of the Scheme shall be provided. These documents may be in electronic format.
- (b) Listing: A statement to be made if the Units of the Scheme are to be listed.
- (c) Corporate Profile of Managing Company:
 - (i) The following information shall be provided electronically or in the KIID:
 - (A) Name and address of the head office of the Scheme Managing Company, date of incorporation shall be provided;

(B) Name and address of each member of the board of directors, indicating those members who are independent. In the case of independent members, indicate their principal employment.

(ii) Name of persons acting as portfolio managers, with details of qualifications and any previous experience in the management of portfolios of Scheme;

(iii) Names of persons of the Investment Committee, indicating their principal employment and experience in the field of investment management;

(iv) Name of person acting as the Compliance Officer.

(d) Regulations

The Scheme is required to make the following statements:

(i) That it is licensed or approved by the SEC;

(ii) The trust deed is binding on the Managing Company, Trustee, Custodian and each Unit Holder;

(iii) A statement that all assets of the Scheme are held by the Trustee / Custodian; and

(iv) The limits of any liability of Unit Holders.

8: Delegation of services

(a) If any services, other than management of investments, are delegated to a third party, provide details of the service provider, such as name and address shall be stated; and

(b) A declaration that Managing Company is responsible for all actions of commissions and omissions of the third party to whom such function is delegated.

9: Valuation of the investments and pricing of Units of the Scheme

(a) Valuation of Investments: The method of valuing all assets in the scheme shall be stated.

(b) Calculation of Unit / Share price: The method of determining the Issue and Redemption prices, frequency of calculation of such prices and availability of such prices on a regular basis shall be stated.

10: Suspension of dealing and termination of the Scheme

(1) The following shall be provided:

(a) The circumstances under which dealing in Units of a Scheme may be suspended with the relevant time limits; and

(a) Details of when and how the Scheme may be terminated.

11. Redemptions

Where applicable redemption requests on any dealing day exceed ten per centum (10%) of the total number of units in issue redemption requests in excess of the ten per centum (10%) may be deferred to the next dealing day provided the Commission is notified in writing of such deferral.

12. Front end fees and exit fees

Where applicable

Appendix 4: Guidance on asset valuation and pricing

General

1. This Guidance relates to the calculation of a single price and Net Asset Value. Under this Code the Managing Company shall take all reasonable steps, and exercise due diligence, to ensure that the assets of the Scheme is valued in accordance with the law, the regulations and the trust deed.
2. This Guidance sets out minimum standards of control in relation to the valuation of the assets of the Scheme to which the Managing Company shall have regard in determining whether they have met their obligations.
3. The Managing Company shall take action forthwith to rectify any breach in respect of valuation. Where the breach relates to the incorrect pricing of Units, rectification shall extend to the reimbursement or payment of money by the Managing Company to Unit Holders or former Unit Holders or to the Scheme as described in “Compensation on Incorrect Pricing” under paragraphs 27 and 28.
4. The Custodian or Trustee of the Scheme may direct that rectification need not extend to reimbursement where it appears that the incorrect pricing is of minimal significance. This would only be appropriate where the Managing Company has adequate controls in place.
5. The price of a Unit or share shall be calculated by valuing the assets of the Scheme attributable to Units / shares and dividing that value by the number of Units / shares in issue. All the assets of the Scheme shall be valued at each valuation point and any part of the assets of the Scheme which is not an investment shall be valued at fair value. The commission expects a Managing Company to agree on its methodology for valuing the assets of the Scheme with the Trustees of the Scheme and the Custodian and that the methodology in place is applied consistently.
6. In respect of securities quoted on an Exchange:
 - (i) the trust deed of the Scheme shall set out the valuation policy that will be adopted by the Managing Company where a single price for buying and selling a Security is quoted; and also where separate buying and selling prices are quoted on an Exchange. Either the official mid-market price or the closing price shall provide an appropriate basis of valuation for the Scheme. The Managing Company shall, however, document the choice of methodology and ensure that the procedures are applied consistently and fairly; and
 - (ii) where there has been no recent trade in the security concerned, or no reliable price exists, an Investment shall be valued at a price which, reflects a fair and reasonable price for that investment. For example, a Managing Company may obtain a valuation from three (3) experienced Stock Brokers and average the value. In such cases, Managing Company is required to document the reasons for its decision and shall be prepared to justify any assumptions made.
7. Where instances of incorrect pricing occur, the de minimis provisions set out in this guidance shall apply only where the Managing Company and the Trustees of the Scheme are able to meet the standards set out in this guidance. Evidence of persistent or repetitive errors, or errors consistently in the Managing Company’s favor, are likely to make it more difficult for the Managing Company to demonstrate that it is able to meet the standards in this guidance.

Pricing controls by the Managing Company

8. Unit prices in Scheme valuations shall be up to date and from a reputable source. The reliability of the source of prices and rates shall be kept under regular review, and the use of doubtful prices or rates shall be followed up.

9. The mere use of a source for prices does not amount to delegation. However, the use of a third party to carry out the pricing function, whether it is an associate of the Managing Company, or the director of the Scheme or any independent third party, amounts to outsourcing. In this case the Managing Company still retains its operating responsibilities and duties and, remains liable for the acts and omissions of that third party in performing the pricing functions as if they were the acts or omissions of the Managing Company. The Managing Company shall ensure that the third party contracts to provide the service on a basis which takes account of the Managing Company's responsibilities which require the Scheme to be priced in accordance with this Code and the trust deed of the Scheme and rules.
10. Where the pricing function is outsourced, the Managing Company is required, to satisfy itself that the pricing agent remains competent to carry out the function, and that he has taken reasonable care to ensure that the pricing agent has carried out his duties in a competent manner.
11. The Managing Company shall seek assurance that the pricing agent's system is robust and will produce accurate results. The Managing Company shall review the outputs from the system at least annually, and on any significant system change. In addition, if the pricing agent is also responsible for calculation of dealing prices of Units, the Managing Company shall ensure that this system is reviewed to its satisfaction at least annually.
12. Unless the valuation and record keeping systems are integrated, the valuation output shall be agreed with the Managing Company's records of a Scheme at each valuation point. In addition, the Managing Company's records, including debtors and creditors, shall be agreed with a Trustee's / Custodian's records at least monthly, with reconciling items followed up promptly with debtors reviewed for recoverability.
13. Systems shall be in place whereby all transactions are confirmed in writing or by electronic means to the Managing Company [or to a pricing agent as quickly as possible]. It is desirable that all deals to which the Scheme is committed, which have been notified, at most, one hour before a valuation, are included in that valuation, at estimated prices if necessary. Unless, however, there is likely to be significant movement in a price of a Unit, it is more important that an accurate cut-off procedure is in place to ensure that omissions or duplications do not take place, than it is to ensure that estimates are included in a valuation.
14. Where prices are obtained otherwise than from the main pricing source (e.g. unquoted, suspended, or illiquid stocks), the Managing Company shall maintain a record of the source and basis for the value placed on the investment. These shall be regularly reviewed.
15. A system shall be in place to ensure that investment and borrowing powers which are contained in the trust deed of the Scheme and KIID are not breached, and that if breaches occur they are identified and rectified.
16. A system shall be in place to ensure that dividends are accounted for as soon as stocks are quoted ex-dividend, unless, it is prudent to account for them only on receipt. Fixed dividends and interest shall be accrued at each point unless the level of materiality makes a longer interval appropriate. Similar considerations apply to the expenses of the Scheme.
17. The Managing Company shall ensure periodically that any charge which is levied on a Unit Holder for dilution has been calculated in accordance with the methodology which has been disclosed in the trust deed.
18. The Managing Company shall set a percentage or absolute limit for certain key elements of the valuation, such that any movement outside these limits is investigated. The process for the investigation and a report of its outcome shall be in writing and evidenced by an appropriate signature. These key elements could, where relevant, include the movement of the overall price of the Scheme against relevant markets, the movement of the prices and values of individual stocks, and accrual figures for income, expenses, and tax. In addition, prices which appear not to have changed after a fixed period of time shall be investigated, since this may be the result of a price movement having been missed.

19. Cash shall be reconciled to the bank account regularly, with outstanding items promptly followed up, and a full reconciliation sent to the Trustees of the Scheme monthly.
20. Controls shall be in place to ensure that the correct number of Units in issue is recorded at each valuation point. This shall be reconciled with the Unit Holder register at least monthly.
21. A copy of the valuation shall be sent to the Trustee at least weekly. It shall specifically check that the correct securities are recorded.

Incorrect pricing

22. The Managing Company shall record each instance where the Unit price is incorrect and, as soon as the error is discovered, report the fact to the Trustees of the Scheme together with details of the action taken, or to be taken, to avoid repetition.
23. The Managing Company and or Trustees shall if they become aware, report material instances of incorrect pricing to the Commission. Materiality shall be determined by taking into account a number of factors, including whether the Managing Company has followed the pricing controls set out in this guidance.
24. The significance of any breakdown in management controls or other checking procedures shall also be taken into account. The significance of any failure of systems shall be considered. This may include situations where inadequate back-up arrangements exist. The duration of an error shall also be taken into account; the longer an error persists, the more likely that it will have a material effect on a price.
25. The level of compensation paid to Unit Holders, and the Managing Company's ability (or otherwise) to meet claims for compensation in full, may also be relevant.
26. The Managing Company shall also report to the Commission forthwith any instance of incorrect pricing where the error is greater than 1.0% of the price of a Unit, but where the Managing Company and or Trustees believe that compensation is inappropriate and shall not be paid by the Managing Company and the reasons for that belief.

Action to be taken as regards compensation for incorrect pricing

27. Prices found to be incorrect by less than 1.0%
 - (a) Where the dealing price of any Unit of a Scheme is found to be incorrect by less than 1.0% of the price of a Unit of a Scheme, compensation to Unit Holders will not normally be required.
 - (b) Where an issue or cancellation of Units has taken place at a price which is incorrect by less than 1.0% of the price of a Unit of a Scheme, compensation to or from the Scheme will not normally be required.
28. Where the dealing price of any Unit of a Scheme is found to be incorrect by 1.0% or more of the price of a Unit of a Scheme, compensation to Unit Holders will normally be required.

SUMMARY OF ASSET VALUATION BASES

Type of Asset	Valuation Method
Cash	At face value
Repurchase Agreements and Deposits with financial institutions.	Shall be valued at cost plus accrued interest basis.
Government Securities	On a marked to market basis using the daily yield curve published by the Central Bank of Sri Lanka until maturity.
Corporate Bonds traded on a recognised market	Shall be valued at the last traded price. Where there is no trade for thirty (30) calendar days, it shall be valued on a marked to market basis using the daily yield curve published by the Central Bank of Sri Lanka until maturity plus any risk premium attached to the instrument.
Unquoted fixed income securities as Commercial Papers, Trust Certificates	Maturities less than 397 days shall be valued on a cost plus accrued basis. Maturities more than 397 days shall be valued on a marked to market basis using the daily yield curve released by the Central Bank of Sri Lanka until maturity plus any risk premium attached to the instrument.
Risk premium	The risk premium for valuation of unquoted and quoted debt securities shall continue to be calculated as the difference between the yield on the corporate debt and the yield on the government security of a similar maturity at the time of investing.
Equity securities traded regularly on a recognised market	At the day's volume weighted average price or the market price available immediately prior to the valuation point.
Derivatives traded on a recognised market	At the day's closing market price or the market price available immediately prior to the valuation point.
Equities traded irregularly or traded on an unofficial or OTC market	Cost (price paid by Scheme) or the most recent traded price provided this was a genuine price resulting from several unconnected deals and not simply one trade or several trades by connected parties or quotes from Stock Brokers.
Unquoted Equity securities	Estimated value. Estimation methods are: (a) Using a fixed multiple of earnings (the P/E ratio) and discounting; (b) Comparing with a traded share and applying a discount; (c) The company's net asset value e.g. in the case property companies Estimated value to be calculated using estimation method (a) or (b). However, in the event estimation methods (a) and (b) are unavailable, then method (c) could be utilized.
Property (real estate)	Independently estimated market value reviewed by a panel of Valuers approved by the Commission.

Appendix 5: Guidelines in respect of Money Market Schemes

1. Scope

- (1) This Appendix applies to a Scheme which invests primarily in short term debt securities and money market instruments or places deposits with licensed commercial banks or licensed finance companies.
- (2) This Appendix does not apply to Schemes which invest in debt securities and money market instruments or places deposits with licensed commercial banks or licensed finance companies as part of a diversified portfolio and those whose objectives is to invest in riskier and higher yielding debt securities.

2. Name and description of Scheme

- (1) The name of a Money Market Scheme shall not appear to draw parallel with the placement of cash on deposit.
- (2) A Scheme which does not comply with the guidelines in this Appendix shall not hold itself out as a Money Market Scheme in any communication, including marketing material, relating to the Scheme. Such a Scheme shall not adopt the term “money market” as part of its name, or a name that suggests that it is a Money Market Scheme or the equivalent of a Money Market Scheme.
- (3) A Scheme which adopts the term “short-term Money Market Scheme” as part of its name or has a name that suggests that it is the equivalent of a short-term Money Market Scheme, or which holds itself out as a short-term Money Market Scheme in any communication, including marketing material, relating to the Scheme, shall comply with paragraphs 5(1), 5(2) and 5(3) of this Appendix.
- (4) For the avoidance of doubt, a short-term Money Market Scheme shall comply with all other provisions in this Appendix.

3. Permissible investments

- (1) For the purpose of this Appendix, a Money Market Scheme’s underlying investment shall only consist of the following:
 - (a) treasury bills and repurchase agreements on government securities with a maturity of less than 397 days;
 - (b) treasury bonds with a remaining term to maturity of less than 397 days;
 - (c) deposits with banks and finance companies licensed by the Central Bank of Sri Lanka with a maturity of less than 397 days;
 - (d) commercial papers issued by listed or rated corporate entities with a maturity of less than 397 days;
 - (e) listed corporate debentures with a remaining term to maturity of less than 397 days;
 - (f) asset-backed securities issued by a listed or rated corporate entity with a remaining maturity of less than 397 days; or
 - (g) repurchase agreements on listed corporate debt securities and unlisted short term corporate debt securities, such as commercial papers and asset back securities, where such agreements can have a maximum tenure of 91 days. No rollovers are permitted beyond 91 days.
- (2) For the purpose of paragraph 3(1) of this Appendix:

(a) “listed” refers to the listing of the entity or instrument at an Exchange licensed by the Commission.

(b) “rated” refers to ratings issued by any Credit Rating Agency licensed by the Commission.

4. Spread of investments and exposure limit

(1) A Money Market Scheme shall have the following investment limits:

(a) Short-term debt instruments

(i) single exposure limit of 15% of the NAV or less with a rated entity;

(ii) single exposure limit of 10% of the NAV or less with a listed but not rated entity;

(iii) single exposure limit of 15% of the NAV or less if the instrument is endorsed or guaranteed by a Commercial Bank licensed by the Central Bank of Sri Lanka or any other party acceptable to the Commission

(b) Bank deposits

(i) single exposure limit of 25% of the NAV or less with a Bank licensed by the Central Bank of Sri Lanka.

No limit is applicable on investments in treasury bills, treasury bonds (with a remaining term to maturity of less than 397 days) and repurchase agreements on government securities.

(c) Group limit

(i) Aggregate investments in, or exposure to a group of entities through:

A. corporate debt securities, such as commercial papers, asset-backed securities and listed corporate debentures (with a remaining term to maturity of less than 397 days); and

B. repurchase agreements on listed corporate debentures,

shall not exceed 25% of the Money Market Scheme’s NAV (group limit). For the purpose of this paragraph, a group of entities refers to an entity, its subsidiaries, fellow subsidiaries and its holding company.

(d) Short-term deposits

(i) The group limit does not apply to placements of eligible deposits arising from:

A. subscription monies received at any point in time pending the commencement of investment by the Money Market Scheme; or

B. liquidation of investments prior to the termination or maturity of a Money Market Scheme, where the placing of these monies with various institutions would not be in the interests of participants.

(2) A Money Market Scheme shall not,

(a) invest in any securities with a maturity of more than 397 days.

(b) invest in any buy and sell back arrangements.

5. Liquidity levels and average portfolio maturity of investments

(1) A Money Market Scheme shall maintain the following liquidity levels:

(a) 5% of its NAV maturing on an overnight basis;

(b) 10% of its NAV maturing on a weekly basis;

(c) 20% of its NAV maturing on a monthly basis.

- (2) A Money Market Scheme shall not hold more than 30% of its net assets in investments that cannot be sold or disposed of in the ordinary course of business within seven (7) calendar days at approximately the value placed on it by the Scheme.
- (3) A Money Market Scheme shall maintain a dollar-weighted average portfolio maturity that does not exceed 210 calendar days. The dollar-weighted average portfolio maturity shall be calculated based on each investment's remaining term to maturity and weighted based on the total NAV of the Scheme.
- (4) Limits stated above under paragraph 5 (1) to (3) are subject to change based on directives issued under the SEC Act from time to time.

6. Downgrade in rating or in the event of default

Where:

- (a) a non-deposit investment ceases to be of high quality;
- (b) there is a default with respect to a permissible investment in the portfolio of the Money Market Scheme; or
- (c) an event of insolvency occurs with respect to the issuer of a non-deposit investment in the portfolio of the Money Market Scheme.

*The Managing Company shall within one (1) month from the date of the specified event dispose of such non-deposit investment or withdraw such deposit unless the Managing Company has satisfied the Trustee that it is not in the best interest of the participants to do so, in which case, such disposal or withdrawal shall be carried out as soon as the circumstances permit or as soon as it is not commercially punitive. Such extension shall be subject to monthly review by the Trustee.

7. Disclosure requirements in the KIID:

The KIID of a Money Market Scheme shall include the following:

- (a) A description of the instruments the Scheme intends to invest;
- (b) A description of the minimum rating of the issuer with whom the Scheme will make investments;
- (c) A description of how the Scheme intends to maintain the liquidity limits prescribed by the Commission;
- (d) The valuation policy adopted by the Scheme for every type of authorised investment the Scheme intends to invest; and
- (e) A description of the contingency plan in the event that the redemption needs exceeds the liquidity limits maintained by the Scheme.

8. Semi-annual and annual reports

The Money Market Scheme's semi-annual and annual reports shall contain disclosures on the term to maturity profile of the Money Market Scheme's underlying investments, such as the distribution of investments grouped by similar maturities.

9. Redemption of investments

All Money Market Schemes which value their investments on a cost plus accrued basis (amortised cost method) shall have the following in place:

- (a) The Managing Companies shall establish sound policies and procedures to monitor its investors aimed at identifying patterns in the investors' liquidity needs.
- (b) The Managing Companies shall have tools / measures to deal with exceptional market conditions and substantial redemption pressures.

Appendix 6: Guidance on Conflicts of Interests

1. Identifying conflicts

A Managing Company shall take all appropriate steps to identify and to prevent or manage conflicts of interest between:

- (a) the Managing Company, including its employees and appointed representatives or any person directly or indirectly linked to them by control, and a Unit Holder of a Scheme operated by the Managing Company; or
- (b) Unit Holders of a Scheme operated by a Managing Company and a client to whom the Managing Company provides any other services under a separate license;

that arise or may arise in the course of the Managing Company providing any service.

2. Types of conflict

- (a) For the purposes of identifying the types of conflicts of interest that arise, or may arise, in the course of providing a service and whose existence may damage the interests of Unit Holders, a Managing Company shall take into account, as a minimum, whether the Managing Company or a relevant person, or a person directly or indirectly linked by control to the Managing Company:
 - (i) is likely to make a financial gain, or avoid a financial loss, at the expense of the Unit Holders;
 - (ii) has an interest in the outcome of a service provided to the Unit Holders or of a transaction carried out on behalf of a client, which is distinct from the Unit Holder's interest in that outcome;
 - (iii) has a financial or other incentive to favour the interest of a particular Unit Holder or class of Unit Holder's over the interests of all the Unit Holders; or
 - (iv) receives or will receive from a person other than the client an inducement in relation to a service provided to the Unit Holder, in the form of monies, goods or services, other than the standard commission or fee for that service.
- (b) The conflict of interest may result from the Managing Company or person providing a service or engaging in any other activity or, in the case of a Managing Company, whether as a result of providing the Scheme, management services or otherwise.
- (c) The circumstances which shall be treated as giving rise to a conflict of interest cover cases where there is a conflict between the interests of the Managing Company or certain persons connected to the Managing Company or its group and the duty the Managing Company owes to a Unit Holder; or between the differing interests of two or more of its Unit Holders, to whom the Managing Company owes in each case a duty.
- (d) It is not enough that the Managing Company may gain a benefit if there is not also a possible disadvantage to a Unit Holder, or that one Unit Holder to whom the Managing Company owes a duty may make a gain or avoid a loss without there being a concomitant possible loss to another such Unit Holder.

3. Records of conflicts

A Managing Company shall keep and regularly update a record of the kinds of service or activity carried out by or on behalf of that Managing Company in which a conflict of interest entailing a material risk of damage to the interests of one or more Unit Holders has arisen or, in the case of an ongoing service or activity may arise.

4. **Managing conflicts**

A Managing Company shall:

- (a) maintain and operate effective organisational and administrative arrangements, with a view to taking all reasonable steps designed to identify, prevent, manage and monitor conflicts of interest in order to prevent them from adversely affecting the interests of the Unit Holders;
- (b) segregate, within its own operating environment, tasks and responsibilities which may be regarded as incompatible with each other or which may potentially generate undue conflicts of interest;
- (c) assess whether its operating conditions may involve any other material conflicts of interest and disclose them to the Unit Holders.

5. **Disclosure of conflicts**

- (a) If the organisational arrangements made by the Managing Company to identify, prevent, manage and monitor conflicts of interest are not sufficient to ensure, with reasonable confidence, that risks of damage to Unit Holders' interests will be prevented, the Managing Company shall :
 - (i) clearly disclose the general nature or sources of conflicts of interest to the Unit Holders before undertaking business on their behalf;
 - (ii) the steps taken to mitigate those risks; and
 - (iii) develop appropriate policies and procedures.
- (b) The disclosure shall :
 - (i) be made in a written form in the KIID or electronic or otherwise;
 - (ii) clearly state that the organisational and administrative arrangements established by the Managing Company to prevent or manage that conflict are not sufficient to ensure, with reasonable confidence, that the risks of damage to the interests of the Unit Holders will be prevented;
 - (iii) include specific description of the conflicts of interest that arise in the provision of investment services or ancillary services;
 - (iv) explain the risks to the client that arise as a result of the conflicts of interest; and
 - (v) include sufficient detail, taking into account the nature of the Unit Holder , to enable that Unit Holder to take an informed decision with respect to the service in the context of which the conflict of interest arises.
- (c) Managing Companies shall aim to identify and manage the conflicts of interest arising in relation to their various business lines and their group's activities under a comprehensive conflicts of interest policy. In particular, the disclosure of conflicts of interest by a Managing Company shall not exempt it from the obligation to maintain and operate the effective organisational and administrative arrangements to manage conflicts.
- (d) A Managing Company shall treat disclosure of conflicts pursuant to this part as a measure of last resort to be used only where the effective organisational and administrative arrangements established by the company to prevent or manage its conflicts of interest are not sufficient to ensure, with reasonable confidence, that risks of damage to the interests of the Unit Holders will be prevented.

6. **Conflicts policy**

- (a) A Managing Company shall establish, implement and maintain an effective conflicts of interest policy that is set out in writing and is appropriate to the size and organisation of the Managing Company and the nature, scale and complexity of its business.

- (b) Where the Managing Company is a member of a group, the policy shall also take into account any circumstances, of which the Managing Company is or shall be aware, which may give rise to a conflict of interest arising as a result of the structure and business activities of other members of the group.

7. Contents of the conflicts policy

- (a) The conflicts of interest policy shall include the following content:
- (i) it shall identify potential conflicts by reference to the specific services and activities carried out by or on behalf of the Managing Company, the circumstances which constitute or may give rise to a conflict of interest entailing a material risk of damage to the interests of one or more Unit Holders; and
 - (ii) it shall specify procedures to be followed and measures to be adopted in order to manage such conflicts.
- (b) The procedures and measures provided for in paragraph (a)(ii) shall:
- (i) be designed to ensure that relevant persons engaged in different business activities involving a conflict of interest of the kind specified in paragraph (a)(i) carry on those activities at a level of independence appropriate to the size and activities of the company and of the group to which either of them respectively belongs, and to the materiality of the risk of damage to the interests of Unit Holders ; and
 - (ii) include such of the following as are necessary and appropriate for the Managing Company to ensure the requisite degree of independence:
 - (A) effective procedures to prevent or control the exchange of information between relevant persons engaged in activities involving a risk of a conflict of interest where the exchange of that information may harm the interests of one or more Unit Holders ;
 - (B) the separate supervision of relevant persons whose principal functions involve carrying out activities on behalf of, or providing services to, Unit Holders whose interests may conflict, or who otherwise represent different interests that may conflict, including those of the Managing Company;
 - (C) the removal of any direct link between the remuneration of relevant persons principally engaged in one activity and the remuneration of, or revenues generated by, different relevant persons principally engaged in another activity, where a conflict of interest may arise in relation to those activities;
 - (D) measures to prevent or limit any person from exercising inappropriate influence over the way in which a relevant person carries out services or activities; and
 - (E) measures to prevent or control the simultaneous or sequential involvement of a relevant person in separate services or activities where such involvement may impair the proper management of conflicts of interest.
- (c) If the adoption or the practice of one or more of those measures and procedures does not ensure the requisite level of independence, a company shall adopt such alternative or additional measures and procedures as are necessary and appropriate for the purposes of paragraph (a)(ii).
- (d) In drawing up a conflicts of interest policy which identifies circumstances which constitute or may give rise to a conflict of interest, a Managing Company shall pay special attention to the activities of managing investments, proprietary trading, management of a Scheme and corporate finance business, including underwriting or selling in an offering of securities and advising on mergers and acquisitions. In particular, such special attention is appropriate where the Managing Company or a person directly or indirectly linked by control to the Managing Company performs a combination of two or more of those activities.

8. Conflict Rules relating to investment management

The guidance relating to types of conflict, records of conflicts, and conflicts of interest policies also apply to a Managing Company when it manages private portfolios under an Investment Manager's license.

9. Chinese walls

- (a) When a Managing Company establishes and maintains a chinese wall (that is, an arrangement that requires information held by a person in the course of carrying on one part of the business to be withheld from, or not to be used for, persons with or for whom it acts in the course of carrying on another part of its business) it may:

- (i) withhold or not use the information held; and
- (ii) for that purpose, permit persons employed in the first part of its business to withhold the information held from those employed in that other part of the business;

but only to the extent that the business of one of those parts involves the carrying on of activities regulated by the Commission .

- (b) Information may also be withheld or not used by a Managing Company when this is required by an established arrangement maintained between different parts of the business (of any kind) in the same group.

- (c) For the purpose of this guidance "maintains" includes taking reasonable steps to ensure that the arrangements remain effective and are adequately monitored and shall be interpreted accordingly.

10. Attribution of Knowledge

When a Managing Company manages a conflict of interest using the arrangements which take the form of a chinese wall, individuals on the other side of the wall will not be regarded as being in possession of knowledge denied to them as a result of the chinese wall.

Appendix 7: Guidance on Complaints Handling

This Guideline prescribes the complaints handling procedures that are required to be maintained by a Managing Company of a Scheme.

(1) Complaints management policy

A Managing Company shall ensure that a complaints management policy is set out in a written document. This policy shall be defined and endorsed by the board of directors of a Managing Company, which shall be responsible for its implementation and for monitoring compliance with it.

The complaints management policy shall be made available to all relevant staff of the Managing Company.

(2) Complaints management function

A Managing company shall have in place a complaints management function which enables complaints to be investigated fairly and possible conflicts of interest to be identified and mitigated.

(3) Registration

A Managing Company shall maintain a register in which every complaint and the action taken in its regard is recorded. Such register shall include for each complaint, the date on which it was received and the date on which it was resolved. The Commission may at any time require the register to be produced for its review.

(4) Reporting

A Managing Company shall provide information on complaints and complaints handling to the Commission as and when required. This information shall cover the number of complaints received, differentiated as appropriate or as indicated in any criteria that the Commission may from time to time establish.

(5) Internal follow-up of complaints handling

A Managing Company shall analyse complaints handling data on an on-going basis in order to ensure that they identify and address any recurring or systemic problems and any potential legal and operational risks by, for instance, carrying out the following:-

- (a) Analysing the causes of individual complaints so as to identify root causes common to types of complaint;
- (b) Considering whether such root causes may also affect other processes or products, including those not directly complained of; and
- (c) Correcting, where reasonable to do so, such root causes.

(6) Provision of information

A Managing Company shall:

- (a) On request or when acknowledging receipt of a complaint, provide written information regarding their complaints handling process;
- (b) Publish details of their complaints handling process in an easily accessible manner (for example, in brochures or via Managing Company's website);

- (c) Provide clear, accurate and up-to-date information about the complaints-handling process including,
 - (i) details of how to make a complaint (for example, the type of information to be provided by the complainant and the identity and contact details of the person or the division to whom the complaint shall be directed); and
 - (ii) the process that will be followed when handling a complaint (for example, when the complaint will be acknowledged, an indication of handling timelines and the availability of any alternative dispute resolution mechanisms in the case that a dispute remains unresolved).
- (d) Keep the complainant informed about further handling of the complaint.

(7) Procedures for responding to complaints

- (a) A Managing Company shall, in writing, acknowledge receipt of any complaint within seven (7) days of such receipt and shall also provide confirmation of the following:
 - (i) The Managing Company shall investigate the complaint;
 - (ii) The Managing Company shall, on completion of the investigation and without unnecessary delay, write to the complainant concerning the outcome of the investigation and describing its proposed course of action; and
 - (iii) If the investigation is not completed within one (1) month of receipt of the complaint, the managing company shall inform the complainant of such fact within seven (7) business days from the end of that period.
- (b) Where a complaint is made orally, the Managing Company shall make a summary of the complaint and request the complainant to confirm in writing the said summary;
- (c) The Managing Company shall seek to gather and investigate all relevant evidence and information regarding the complaint;
- (d) Where the investigation of a complaint is not completed within one (1) month from receipt of the complaint, the Managing Company shall, in the communication referred to in point (iii) of point (a) above:
 - (i) Inform the complainant about the cause of the delay; and
 - (ii) Provide an indication as to when the investigation is likely to be completed
- (e) When providing a final decision that does not fully satisfy the complainant's demand, the Managing Company shall provide a thorough explanation of the Managing Company's position on the complaint.