



Reserve Bank of Fiji

Capital Markets Supervision Policy Statement No. 9

Asset Investment Management Policy For Managed Investment Schemes

**NOTICE TO CAPITAL MARKETS INTERMEDIARIES LICENSED
UNDER THE CAPITAL MARKETS DECREE 2009**

1.0 Introduction

- 1.1 This Policy will be issued under section 5 of the Capital Markets Decree 2009 as part of the Reserve Bank of Fiji's ("RBF") standards governing Managed Investment Schemes (MIS).
- 1.2 The Policy describes the essential elements for sound asset investment management by MIS across the full range of investment activities. The asset management practices of MIS are likely to differ according to the size, structure, objectives and type of products of the MIS. This Policy, therefore, highlights the minimum requirements that all MIS must observe and adhere to.
- 1.3 In preparing this Policy, the RBF has been guided by the Objectives and Principles of Securities Regulation issued by the International Organisation of Securities Commissions (IOSCO)¹, powers under the Capital Markets Decree 2009, Unit Trust Act 1978, Trustee Act 1966 and best practices on MIS of other selected supervisory authorities.

2.0 Objectives of this Policy

- 2.1 The objective of this Policy is to ensure that all MIS have in place an efficient and effective asset investment management policy framework for investing of unit holder funds in a sound and prudent manner.
- 2.2 With an efficient and effective asset investment management policy framework, the commitment of MIS to manage its investments is expected to be enhanced and investment practices that pose a risk to unit holders are minimised.

3.0 Minimum Requirements under this Policy

3.1 Overall Oversight

- 3.1.1 The Management Company ('Manager') and Trustee should ensure that the fund is managed in accordance with:
 - (i) RBF Policy
 - (ii) MIS Investment Policy;
 - (iii) Trust Deed;
 - (iv) Prospectus of the MIS;
- 3.1.2 The Manager, in consultation with the Trustee, must:
 - (i) formulate and establish investment policies of the MIS in accordance with this Policy;
 - (ii) review the adequacy of the investment policy at least once annually in the light of the MIS activities and market conditions; and
 - (iii) ensure that all individuals conducting, monitoring and controlling investment activities are appropriately qualified and have sufficient level of knowledge and experience.

¹ IOSCO Principles Number 17-20 on Collective Investments Schemes

3.2 Investment Policy

3.2.1 An MIS shall have in place an overall strategic investment policy that addresses the following main elements:

- (i) investment objective;
- (ii) strategy for the achievement of return on investment;
- (iii) strategic asset allocation, that is, the asset mix over the main investment categories;
- (iv) the establishment of limits for the allocation of assets;
- (v) investment constraints;
- (vi) a risk framework to be formulated in respect of the investment activities of the MIS;
- (vii) duties and responsibilities of Manager and Trustee; and
- (viii) investment process outlining the details in the approval of investments.

3.2.2 The Investment Policy should be communicated to staff involved in investment activities.

3.3 Role of the Manager

3.3.1 The Manager shall report regularly to its Board. All investment decisions are to be tabled at Board level and full minutes of all discussions to that proposal must be minuted, including any dissenting decisions. The Manager must attach these minutes, or the section of the minutes that relate to the investment proposal, when the proposal is sent to the Trustee for approval.

3.3.2 The Manager must ensure that investment officers are qualified and competent to carry out the assigned tasks. An appropriate fit and proper assessment for investment officers must be carried out. Their work should be monitored closely to ensure that the MIS's strategy is being followed.

3.3.3 The Manager may use the services of suitably qualified investment consultants for investment strategy design, research and implementation. However, the MIS must retain full control of the outsourced activity.

3.3.4 Where the Manager engages an external provider, the Manager must adhere to the requirements of the RBF Capital Markets Supervision Policy Statement 20/01.²

3.4 Role of the Trustee

3.4.1 The Trustee must ensure that all investment activities are implemented in accordance with this Policy, the Investment Policy Guidelines and the Trust Deed.

3.4.2 Where investment policies and guidelines are not followed by the Manager, the Trustee has the discretion and an obligation to either reject the proposal, require more information to be submitted, direct that the Manager take certain actions or require that the Manager make amendments to its proposal.

3.4.3 The Trustee, in relation to their role under the Trust Deed and relevant legislations shall:

² Capital Markets Development Authority Policy Statement 20/01

- (i) Review the investment policy of the managed fund on a regular basis so that it remains appropriate in light of the changes in business and economic environment;
- (ii) Ensure the investment policy is consistent with the asset-liability management strategies required to support any new products;
- (iii) Ensure that the investment policy is consistent with the dividend policy of the MIS;
- (iv) Ensure that risk management functions continue to be appropriate;
- (v) Review the adequacy of internal control systems that directly support investment activities; and
- (vi) Ensure resources dedicated to the investment activities of the MIS are sufficient to implement and manage the approved investment policy and other activities requested by the Manager.

3.4.4 The Trustee shall also report to the RBF on any non-compliance or malicious behaviour of the Manager relating to the MIS.

3.5 Investment Restrictions

3.5.1 MIS shall not:

- (i) purchase a security, other than a debt security issued by the Government of Fiji or the government of any other country, if, immediately after the purchase, more than 15% of its net assets, taken at market value at the time of purchase, would be invested in securities of that issuer;
- (ii) purchase a security of an issuer where, immediately after the purchase, the MIS would hold more than 10% of a class of securities of that issuer;
- (iii) purchase real estate;³
- (iv) purchase a mortgage;
- (v) purchase a security for the purpose of exercising control or management of the issuer of the security;
- (vi) purchase an illiquid asset if, immediately after the purchase, more than 10% of the net assets of the MIS, taken at market value at the time of the purchase would consist of illiquid assets;
- (vii) except within the limits established by the RBF or in the case of a specialised fund authorised by the RBF, purchase or sell derivatives;
- (viii) except in the case of a specialised MIS authorised by the RBF, purchase or sell a physical commodity, including precious metals; and
- (ix) purchase a security of not more than 20% in a related party.

3.6 Investment Practices

3.6.1 MIS shall not -

- (i) borrow money or provide for the creation of any encumbrance on its assets except in the following situations:
 - a. the transaction is a temporary measure to accommodate requests for the redemption of securities of the MIS while the MIS effects an orderly liquidation of its assets, and, after giving effect to the transaction, the outstanding amount of all borrowings of the MIS does not exceed 5% of the net assets of the MIS taken at market value at the time of the borrowing;

³ Exempts Property Trusts

- b. the encumbrance secures a claim for the fees and expenses of the Trustee services rendered in that capacity;
- (ii) subscribe securities offered by a company under formation;
- (iii) engage in the business of underwriting or marketing securities of any other issuer;
- (iv) subject to this Policy lend money, securities or other assets;
- (v) guarantee securities or obligations of another person;
- (vi) purchase or sell securities other than through market facilities where these securities are normally bought and sold unless the transaction price approximates the prevailing market price or is negotiated on an arm's length basis;
- (vii) purchase a security from, or sell a security to, one of the following persons:
 - a. the Manager or the Trustee;
 - b. an officer of the Manager or the Trustee;
 - c. a related party of a person referred to in (a) and (b), unless the purchase from or sale to the related party is carried out at arm's length.

3.6.2 However, where the Manager is aware that it is outside of the restrictions in 3.5.1 and 3.6.1, then they need to apply to the Reserve Bank of Fiji for approval and must cite the special circumstances requiring the approval.

3.6.3 Where the MIS proposes to offer a scheme for which no investment restrictions and practices are set out in this Policy, the Reserve Bank of Fiji must be consulted as to the investment restrictions and practices that should apply.

3.6.4 The MIS should not make any further acquisition to which there is a breach, and the MIS should, within a reasonable period of not more than one month from date of the breach, take all necessary steps and actions to rectify the breach, taking due account the interest of unit holders.

3.7 Valuation of MIS Assets

3.7.1 MIS assets are to be valued on a basis that is adequate for accounting and reporting purposes. Compliance with FAS 39: 'Financial Instruments and Recognition and Measurement' is required when valuing investments.

3.7.2 MIS assets are to be valued at market value or fair value on a regular basis and adjustments to its books must be made accordingly.

3.7.3 Revaluations must be reflected immediately in the applicable quarterly returns submitted to the Reserve Bank of Fiji.

3.8 Risk Management

3.8.1 The MIS should have in place a comprehensive risk management policy and systems capable of identifying, monitoring, measuring, reporting and controlling risks associated with investment activities.

3.8.2 The risk management functions should:

- (i) Monitor compliance with the approved investment policy;
- (ii) Formally note and promptly report breaches;
- (iii) Review asset risk management activity and results over the past period;
- (iv) Review asset/liability and liquidity position;

- (v) Establish an internal rating system to be consistent with the overall objective of the investment policy;
- (vi) Assess the appropriateness of the asset allocation limits; and
- (vii) Report regularly to the Board.

3.9 Internal Controls

- 3.9.1 Adequate systems of internal controls must be established to ensure that assets are managed in accordance with the overall investment policy and the legal and regulatory requirements. Key controls include but are not limited to segregation of duties, approvals, verifications and reconciliations.

4.0 Audit

- 4.1 The MIS should have an internal audit of their investment activities which ensures timely identification of internal control weaknesses and operating system deficiencies. The audit must be carried out by an independent person/party and the audit findings must be reported directly to the Board.
- 4.2 The audit coverage should be provided by competent professionals who are knowledgeable of the risks inherent in the assets held. Concerns on any investment activity must be reported to the Manager, Trustee and the Board.
- 4.3 Audits should evaluate the independence and overall effectiveness of the MIS asset management functions. They should also review the MIS asset portfolio and written investment policies and procedures to ensure compliance with the MIS regulatory obligations.
- 4.4 An external audit must also be completed annually and reported directly to the Board, as required under the Companies legislation.

5.0 Oversight by the RBF

- 5.1 Each MIS must submit to the Reserve Bank of Fiji copies of its investment management policy and procedures within twenty-one working days of approval by its Board. The policy and procedures must be submitted to the Reserve Bank of Fiji within the same timeframe if they are revised.
- 5.2 The Reserve Bank of Fiji will assess the MIS compliance with this Policy through prudential consultations, including on-site examination and off-site supervision.

6.0 Implementation Arrangements

- 6.1 This Policy applies to all MIS approved under the Capital Markets Decree 2009.
- 6.2 This Policy will be effective from 1 January 2012.

SCHEDULE A

Interpretation -

1. Any term or expression used in this Notice that is not defined in this Notice:

- (a) which is defined in the Decree shall, unless the context otherwise requires, have the meaning given to it by the Decree;
- (b) which is not defined in the Decree and which is defined in any of the RBF's Policy Statements shall, unless the context otherwise requires, have the meaning given to it by those policy statements; and
- (c) which is not defined in the Decree or in any of the RBF's Policy Statements shall, unless the context otherwise requires, be interpreted in accordance with generally accepted accounting principles.

2. In this Notice, unless the context otherwise requires:

'Asset Liability Management' means coordinating the management of assets and liabilities so that an adequate return is earned.

'Board' refers to the persons duly appointed as Directors on the Board of a MIS.

'Decree' means the Capital Market Decree 2009, unless otherwise specified.

'Managed Investment' or "Managed Investment Scheme' means:

- (a) a scheme that has the following features:
 - (i) people contribute money or money's worth as consideration to acquire rights (interests) to benefits produced by the scheme (whether the rights are actual, prospective or contingent and whether they are enforceable or not); and
 - (ii) any of the contributions are to be pooled, or used in a common enterprise, to produce financial benefits, or benefits consisting of rights or interests in property, for members who hold interests in the scheme (whether as contributors to the scheme or as people who have acquired interests from holders); and
 - (iii) the members do not have day-to-day control over the operation of the scheme (whether or not they have the right to be consulted or to give directions);
- (b) but does not include the following:
 - (i) interests in any credit union registered under the Credit Unions Act; or
 - (ii) interests in any friendly society registered under the Friendly Societies Act; or
 - (iii) a scheme in which all the members are bodies corporate that are related to each other and to the body corporate that promotes the scheme; or
 - (iv) a franchise; or
 - (v) a scheme operated by a bank licensed to operate in Fiji in the ordinary course of its banking business; or
 - (vi) the issue of debentures or convertible notes by a body corporate; or
 - (vii) a barter scheme under which each participant may obtain goods or services from another participant for consideration that is wholly or substantially in kind rather than in cash.

“Manager/Management Company” in relation to a Managed investment scheme, means the company (howsoever described) in which is vested the powers and functions of the Manager of the Managed investments scheme under this Decree;

“Relevant Legislations” includes the Trustee Act, Unit Trust Act and the Capital Market Decree, Capital Markets Rules & Regulations.

“Related Party”/“Parties” means:

- (a) the management company of the fund;
- (b) the trustee of the fund;
- (c) a director, chief executive officer or major shareholder of the management company; or
- (d) a person connected with any director, chief executive officer or major shareholder of the management company; or a person connected with the management company or trustee.

“Security”/“Securities” includes stock, funds and shares.

“Transferable Securities” are equities, debentures and warrants.

“Trustee” means persons approved as a Trustee of a Managed Investment Scheme in accordance with the Trustee Act [Cap 65] and approved by the Reserve Bank.