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To : ALL MEMBERS AND REGISTERED PERSONS (UNIT TRUST MANAGEMENT COMPANIES/ INSTITUTIONAL UNIT TRUST ADVISERS/ CORPORATE UNIT TRUST ADVISERS/ PRIVATE RETIREMENT SCHEME PROVIDERS/ INSTITUTIONAL PRIVATE RETIREMENT SCHEME ADVISERS/ CORPORATE PRIVATE RETIREMENT SCHEME ADVISERS)

ATTN : CHIEF EXECUTIVE OFFICER/ AUTHORISED REPRESENTATIVE

Dear Sir/Madam,

DUTIES AND RESPONSIBILITIES OF MEMBERS AND REGISTERED PERSONS IN HELPING INVESTORS TO MAKE INFORMED INVESTMENT DECISIONS UNDER SWITCHING TRANSACTIONS

(A) Objective

1. This circular aims to highlight the above to Members and Registered Persons. In discharging the duties and responsibilities for persons authorized to deal in units of unit trust funds and private retirement schemes¹, all Members and Registered Persons must ensure that the practice of excessive switching that are not in the best interest of investors should not be adopted.
2. In this regard, Members and Registered Persons should aim to enhance transparency on investors' rights, such as availability of free switching and keep investors informed about switching fees (if any) to be incurred when making the investment decision.

(B) Definitions

3. For the purpose of this circular, "Switching" and "Churning" are defined as follows:
 - (a) "Switching" refers to concurrent² transactions of redemption and purchase of units involving two (2) or more funds that meet any of the following criteria:

¹ Clause 3.02 (d) of the Guidelines on Marketing and Distribution of Unit Trust Funds states that an authorized persons should at all times treat investors with respect and disclose fully all information pertinent for investors to make informed investment decisions. Clause 3.08 (a) (v) of the same Guidelines prescribed that an authorized person should adequately explain to a prospective investor the nature and characteristics of the fund that is being marketed that include the fees, charges and expenses involved and Clause 5.01 (c) of the Guidelines states that an authorized persons should clearly inform prospective investors of the unit price and charges imposed.

² The investor does not need to wait for the proceeds of redemption to effect a purchase or investment into another fund.



- i. Investors do not pay any sales charge for investing into another fund(s);
- ii. Investors pay a portion of the sales charge for investing into another fund(s); or
- iii. Investors pay a flat or fixed amount of administrative fee for investing into another fund(s).

(b) "Churning" refers to excessive redemption and purchase of units using the same investment proceeds into one (1) or more fund(s).

(C) Background and issues

- 4. Currently, investors are allowed to perform switching transactions by selling his/her units in one fund and immediately re-invested into another fund(s) without the need to wait for the redemption proceeds to effect a purchase.
- 5. Switching services currently offered by Members and Registered Persons to investors may incur the following fees and charges.

- (a) Sales charges for switching into a fund;
- (b) Exit fees (though not common) for switching out from a fund; and/ or
- (c) Administrative fees.

6. However, certain switching transactions may not attract sales charges, especially when investors switch out from a fund charging sales charge that is higher than the fund he/she intends to switch into. For example, from equity funds to bond funds or money market funds which are generally imposing lower or no sales charge as compared to equity funds.

- 7. Switching becomes an issue if:
 - (a) investors are not informed on free switching option that they are entitled to;
 - (b) it is conducted excessively which is not in the best interest of investors but for the purpose of earning sales commission by Unit Trust Consultants ("UTCs") and Private Retirement Scheme Consultants ("PRCs").

(D) Duties and Responsibilities of Members and Registered Persons in Helping Investors to Make Informed Investment Decisions under Switching Transactions

Terms used for switching services

8. Terms used for switching services should not give an investor the impression that he/she is not performing a switching transaction. For example, terms such as "contra redemption" should not be used.

Industry measures to protect investors from excessive switching

9. All Members and Registered Persons are required to ensure that the following measures are put in place to protect investors from excessive switching:
- (a) Switching transaction must be properly verified and documented;
 - (b) Investors must be informed on free switching options entitled to them, if any, before any switching transaction is conducted.
 - i. Free switching options, where applicable, must be indicated clearly in the switching form by Members and Registered Persons; and
 - ii. Members and Registered Persons must ensure that switching transactions that are entitled or qualified for "free switching" must be utilized or exhausted first prior to implementing switching transactions that involved fees and charges;
 - (c) Churning is prohibited.
 - (d) Investors must receive written notice each time a switching transaction is conducted. Among others, the written notice must clearly disclose all the fees and charges involved in the switching transaction;
 - (e) Members and Registered Persons must be able to track and monitor churning transactions to ensure investors' interests are not being compromised under such transactions. Among other things, Members and Registered Persons may put in place systems and procedures to ensure that:
 - i. All switching transactions conducted, together with relevant information, such as sales charges and exit fees (if applicable), incurred directly by investors must be tracked by Members and Registered Persons; and
 - ii. Investment performance for the respective investors can be monitored and churning cases that benefit Unit Trust Consultants (UTCs) or Private Retirement Scheme Consultants (PRCs) at the expense of investors, if any, can be detected.

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- (f) An annual review by Members and Registered Persons shall include policy and procedures on switching transactions as a control to detect churning and/or excessive switching transactions.

Should you require any further information or clarification, please do not hesitate to contact the undersigned, Ms Koh Hwee Ngim or Cik Zunaida Abdullah at 603-2093 2600 or email to koh@fimm.com.my / zunaida@fimm.com.my.

Thank you.

Yours faithfully

FEDERATION OF INVESTMENT MANAGERS MALAYSIA



NAZARUDDIN OTHMAN
Chief Executive Officer