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Federation of Investment Managers Malaysia

FCE

FIMM COMBINED EXAMINATION

STUDY GUIDE

FIMM Combined Examination (FCE) Study Guide

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19-06-1, 6th Floor, Wisma Wisma Capital A,
19, Lorong Dungun, Damansara Heights,
50490 Kuala Lumpur

Tel : 03-2093 2600
Fax : 03-2093 2700
Email : info@fimm.com.my
Website : www.fimm.com.my

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PREFACE

The FIMM has published this first edition of the combined Dealing in Unit Trusts and Private Retirement Scheme Examination Study Guide to pave the way for a single examination for aspiring candidates to be registered to promote and distribute both UTS and PRS products.

This combined edition of the study guide is now known as the *Exam Study Guide (CUTE and CPRE)*. The contents of this combined study guide have been updated to be consistent with the latest industry and regulatory development. The publication of this book has been made possible by the collaborative effort between FIMM Management and FIMM Study Guide Working Group. The Members of the FIMM Study Guide Working Group were as follows:

- Ms. Jas Bir Kaur, Subject matter expert and FIMM Public Interest Director;
- AHAM Asset Management Bhd;
- AIA Pension and Asset Management Sdn Bhd;
- RHB Asset Management Sdn Bhd;
- Principal Asset Management Bhd;
- Public Mutual Bhd;

Objective

FIMM has developed the *Exam Study Guide (CUTE and CPRE)* primarily to enable prospective Unit Trust Scheme (UTS) Consultants and Private Retirement Scheme (PRS) Consultants to acquire basic knowledge and understanding of UTS and PRS in preparing for the UTS and PRS examinations.

All persons involved in the marketing and distribution of UTS and PRS are required to sit for and pass the UTS examination and PRS examination respectively before obtaining authorisation from the FIMM to market and distribute units in UTS and PRS.

This study guide deals with the fundamental skills required of those intending to pursue a career in UTS and PRS marketing and selling. It is crucial that those responsible for marketing and distributing UTS and PRS have a high level of knowledge and skill so as to provide their clients with the necessary professional service.

The syllabus covered in this study guide are developed by the SC for the UTS and PRS examinations. The examination is conducted in two languages: English and Bahasa Malaysia. The examination is to be carried out online, at candidates' respective venue.

This study guide is also useful to others with an interest in the UTS and PRS industry in Malaysia as it:

- provides an overall understanding of the UTS and PRS industry, including the regulatory environment within which it operates;
- explains the principles and mechanics of UTS and PRS, together with the benefits and risks of investing in these Schemes;
- describes the operations, management and administration of UTS and PRS; and
- emphasises the need for prospective UTS Consultants and PRS Consultants to be professional by practising ethical practices in order to build long-term relationships between Distributors, Consultants and clients.

Structure

This study guide is a combination of the previous study guides, Dealing in *Unit Trusts and Private Retirement Scheme Examination Study Guide*.

The following table provides the comparison between the Dealing in *Unit Trusts and Private Retirement Scheme Examination Study Guide* and the combined study guide.

Dealing in Unit Trusts	Private Retirement Scheme Examination Study Guide	ExamStudy Guide (CUTE and CPRE)
Chapter 1 Understanding Unit Trusts	**Chapter 1** Introduction to the Private Retirement Scheme Industry	**Chapter 1** Understanding Collective Investment Schemes in Malaysia
Chapter 2	**Chapter 2** Regulatory Framework	**Chapter 2**

Dealing in Unit Trusts	Private Retirement Scheme Examination Study Guide	ExamStudy Guide (CUTE and CPRE)
Regulation of the Unit Trust Industry		Introduction to Unit Trust Scheme and Private Retirement Scheme
Chapter 3 Servicing Clients and Marketing of Unit Trust	**Chapter 3** The Private Retirement Scheme Provider	**Chapter 3** Regulatory Framework
Chapter 4 Industry Code of Ethics and Standards of Professional Conduct	**Chapter 4** Features of the Private Retirement Schemes	**Chapter 4** Marketing and Distribution
Chapter 5 Personal Financial Planning	**Chapter 5** Constitution of the Private Retirement Schemes	**Chapter 5** Code of Ethics
Chapter 6 Operations of Syariah-Based UTS	**Chapter 6** Private Retirement Scheme Investment	**Chapter 6** Personal Financial Planning
	Chapter 7 Private Retirement Scheme Distributor and Consultant	**Chapter 7A** Features and Operations of Unit Trust Scheme
		Chapter 7B Features and Operations of Private Retirement Scheme

In addition to the content of the Exam Study Guide (CUTE and CPRE), candidates will also be tested on the contents of the FIMM's Code of Ethics.

Each Chapter begins with learning objectives and ends with self-test questions to assist prospective UTS and PRS Consultants in assessing their understanding of the key points covered.

Each Chapter has also been prepared in line with the relevant competency levels developed by the Securities Industry Development Corporation under its Industry Competency Framework (ICF). The ICF competencies and their applicable levels are disclosed on the same page of the learning objectives for each Chapter.

In order to keep themselves abreast of the latest development in the UTS and PRS industry, UTS and PRS Consultants should also read the newspapers and other publications, online resources including FIMM's and SC's websites, attend conferences/webinars etc.

CHAPTER 1

UNDERSTANDING COLLECTIVE INVESTMENT SCHEMES IN MALAYSIA

Learning Objectives

This chapter focuses on the overall framework of the collective investment schemes (CIS) industry in Malaysia, their features and functions as well as the key participants in this sector.

At the end of this chapter, you should be able to understand and describe:

- Nature of CIS;
- Different types and classification of CIS;
- Participants in the CIS ecosystem and their respective roles; and
- History on the development of CIS in Malaysia.

INDUSTRY COMPETENCY FRAMEWORK

Competency Level

1. Foundational Competency (Product) - FOP02 Capital Market Fundamentals (Level 3)
2. Foundational Competency (Regulatory) - FOR02 Capital Market Institutions (Level 3)

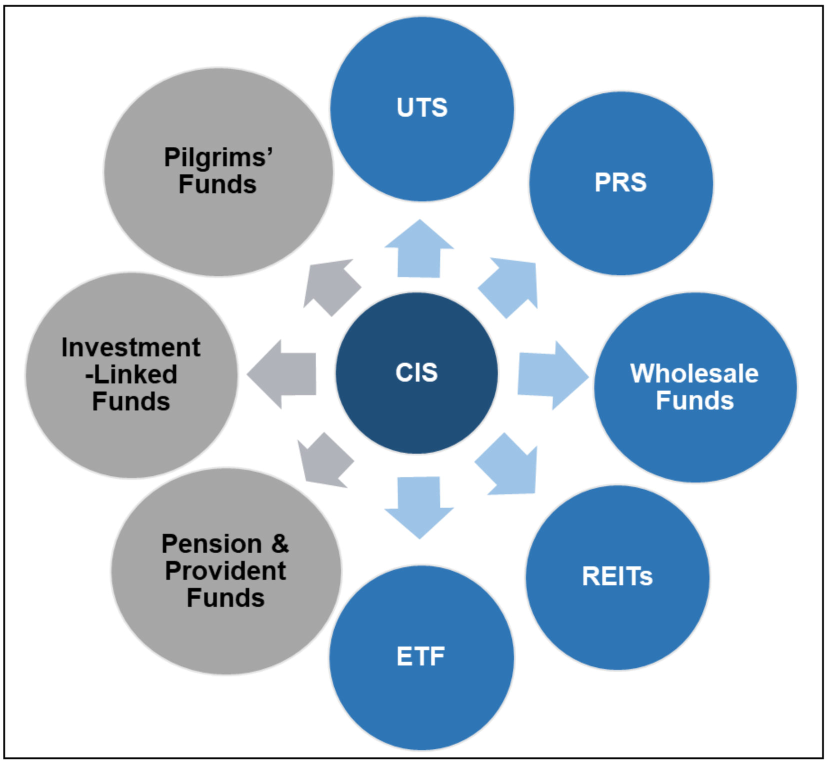
Introduction on Collective Investment Schemes

1.01 A 'collective investment scheme' (CIS) is a generic term for a range of pooled investment vehicles available to investors. In a CIS, a number of investors with similar investment objectives pool their savings and entrust them to a professional fund manager who manages and invests the pooled money in a range of assets or investment instruments to produce a return that is shared by those investors.

1.02 In other parts of the world, a CIS is also known as a mutual fund. Just like a mutual fund, the fund manager has complete discretion over the investment management of a CIS. The interests of the CIS's investors are protected as the establishment, the operations and even the winding down of the CIS are regulated by various parties. A CIS can be structured as a trust, where a Trustee is appointed to hold the assets on behalf of the investors. These assets are segregated from the fund manager's and the trustee's assets, identified as the fund's assets.

1.03 CIS offered in Malaysia include UTS, PRS, Wholesale Funds, Real Estate Investment Trust Funds (REITs) and Exchange Traded Funds (ETF). These CIS are under the purview of the SC that regulates the Malaysian capital market. There are CIS that are under the purview of other authorities in Malaysia, such as pension and provident funds, investment-linked funds and pilgrims' funds. **Diagram 1.1** provides an illustration for CIS in Malaysia.

Diagram 1.1: CIS in Malaysia



1.04 This study guide focuses on the investment structure, regulatory requirements, the investment process and the operations and management of UTS and PRS. The remaining sections in this Chapter covers the characteristics of CIS[1] and a brief history of CIS particularly the development of UTS and PRS to provide the reader of this study guide a broad understanding of the CIS industry particularly that of in Malaysia.

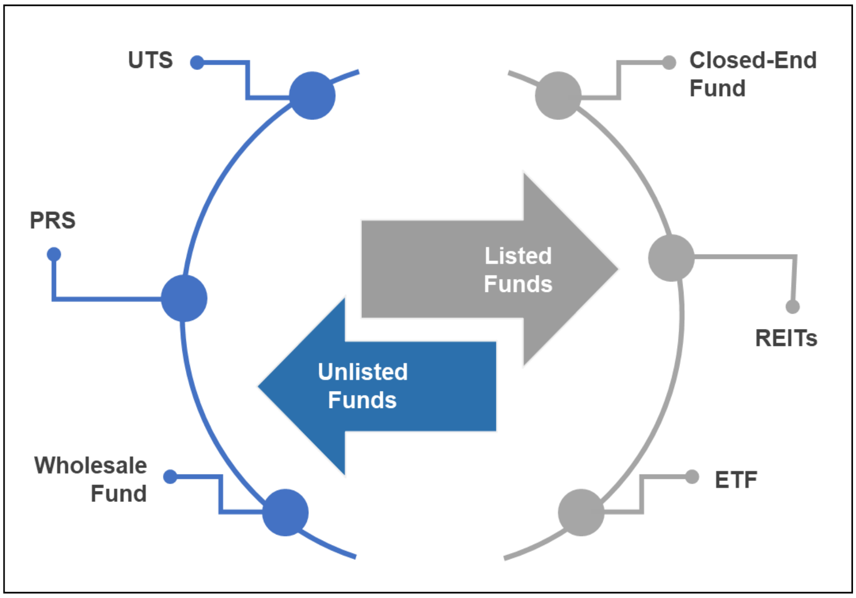
Classification of CIS

1.05 CIS are classified differently in other countries based on the regulatory frameworks of those jurisdictions. As such, terminologies may differ in those countries. In Malaysia, funds under CIS can be broadly categorized as follows:

(a) unlisted funds; and
(b) listed funds.

1.06 The components of unlisted funds and listed funds in Malaysia are as depicted in **Diagram 1.2**.

Diagram 1.2: Components of unlisted and listed funds in Malaysia



Unlisted funds

1.07 UTS and PRS are unlisted, in that their units are not quoted and traded on a stock exchange. The selling and repurchase unit prices are derived by first valuing the investments of a fund and determining its NAV, and then dividing by the number of units in circulation.

1.08 Unlike a listed fund, where orders to buy and sell units are placed through a

[1] Refer to Guidelines of Unit Trust Funds. Chapter 2: Definitions 2.01 Collective Investment Scheme (CIS). Available at: https://www.sc.com.my/regulation/guidelines/collective-investment-scheme.

stockbroker, investors' sales and repurchases of units in unlisted funds are transacted directly with Management Companies, often with the assistance of Consultants.

1.09 Management Companies of unlisted funds publish the NAV per unit in their corporate websites, national newspapers websites and/or FIMM's website daily. This NAV per unit serves as the latest selling price at which units can be bought by investors as well as the repurchase price at which investors may dispose off units to Management Companies.

1.10 Unlisted funds are usually open-ended, e.g. the size of the fund is not fixed. Investors can buy and sell units at any time. Some Management Companies place a limit on the total number of units in funds (also known as 'closed-end' funds) that can be issued. Once the total issued units have been sold, only units repurchased from investors by Management Companies can be sold on to investors.

1.11 There are three (3) types of unlisted funds in Malaysia as described in **Table 1.1**:

Table 1.1: Unlisted funds in Malaysia

Unlisted funds	Description
UTS	UTS is an arrangement under a trust managed by professional fund managers. UTS allows investors with similar investment objectives to pool their funds to invest in and share potential income or profits from a portfolio of securities, derivatives or other assets.
PRS	PRS is a retirement scheme governed by a trust and managed by a professional fund manager to enable Members to build up long-term savings for retirement where the amount of benefits is to be determined solely by reference to the contributions made to the retirement scheme and any declared income, gains and losses in respect of such contributions.
Wholesale fund	An established UTS where the units are offered exclusively to sophisticated investors. Based on the SC Guidelines on Categories of Sophisticated Investors, the following persons are specified to be sophisticated investor: a) Accredited Investor b) High-Net Worth Entity (HNWE) c) High-Net Worth Individual (HNWI)

Unlisted funds and their data including yearly statistics on market size and market trade are available at www.sc.com.my/analytics/fund-management-products.

1.12 Unlisted funds can also be categorised by the fund's investment objective (for example, income or capital growth) or by the class of investment in which funds are invested (e.g. equity or fixed income). Further sub-classification into, say, 'equity growth funds for companies with small market capitalisation or companies whose earnings are expected to grow at an above-average rate either for its industry or the overall market. ‘

1.13 Such classifications are important for investors since these classifications are used to distinguish between funds for the purpose of measuring comparative performance. Categorisation of funds for UTS and PRS is further elaborated in Chapter 2 of this study guide.

Listed funds

1.14 Listed funds, as the name suggests, have units quoted and traded on a stock exchange. An investor who wishes to purchase listed units must approach a stockbroker who, through the market, will acquire those units from a selling investor. The prices of these units could fluctuate daily based on the supply of and demand for, units from investors, e.g. it is the investors in the market who determine the buying and selling prices of the units rather than Management Company.

1.15 The sole responsibility of a Management Company for listed funds is to manage the funds in accordance with the terms of the deed and prospectus. Listed funds (e.g. closed-end funds and REITs) can issue new units by way of a rights issue to existing investors or via a private placement.

1.16 A feature of listed funds is that the market price could vary from the NAV because the market price is determined by demand and supply by investors.

1.17 Currently there are three (3) types of funds that are listed on Bursa Malaysia as described in **Table 1.2**:

Table 1.2: Listed funds in Malaysia

Listed funds	Description
Closed-end funds	A closed-end fund is a listed company that invests in shares of other companies. It is known as a closed-end fund as the number of units offered for subscription is fixed or limited at the time this fund is listed on Bursa Malaysia.[2]
REITs	A REIT is a fund that owns and manages income-producing commercial real estate such as shopping complexes, hospitals, plantations, industrial properties, hotels and office blocks. The earnings of a REIT are largely determined by recurring rental income compared to a property company that seeks a combination of property sales, development profits, rental income and property investments. A REIT is a passive investment vehicle with recurring cash flow

[2] For latest statistics on closed-end funds, kindly refer to the SC and Bursa Malaysia website for more details.

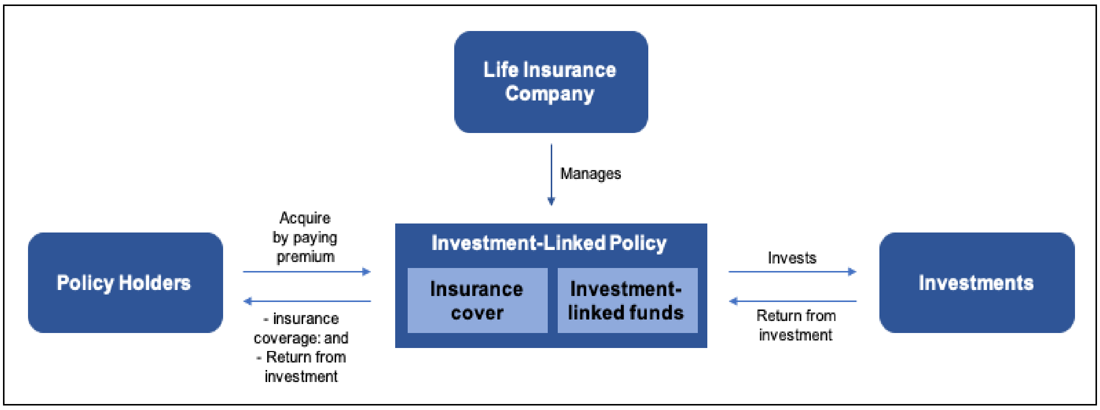
Listed funds	Description
	from rentals derived under lease agreements with tenants.
ETF	An ETF is a listed fund that tracks or replicates the performance of an index, a commodity, or a basket of assets like an open-end investment fund. Similar to UTS and PRS, ETF offers broad diversification and reduces risk involved in owning a single stock. ETF offers Management Companies an option to construct a long-term investment portfolio while having the ability to realise investments to raise cash to meet investors' repurchase requests. The first ETF in Malaysia, e.g. ABF Malaysia Bond Index Fund, was launched in July 2005.

1.18 Funds listed on Bursa Malaysia and their data including yearly statistics on market size and market trade are available at www.sc.com.my/analytics/fund-management-products.

Investment-Linked Funds are Not UTS

1.19 While a detailed review of the various types of CIS lies outside the scope of this book, it is important that Consultants are familiar with type of funds that are comparable to UTS - the investment-linked fund promoted by life insurance companies. As an overview, **Diagram 1.3** provides an illustration showing the mechanics of an investment-linked fund.

Diagram 1.3: Mechanics of an investment-linked fund



1.20 An investment-linked fund promoted by life insurance companies operates in a manner broadly similar to a UTS. The investor or policyholder acquires a life insurance policy, which represents a number of units in an investment pool, managed by the life insurance company. The policy may be purchased with a single premium (lump sum investment) or with regular premium payments, similar to a regular savings plan promoted by many UTMC. Unlike UTS, the policy provides life insurance cover.

1.21 The premiums, less the cost of providing life insurance cover and entry fees, are allocated, at the investor's direction, to one or more separate investment pools. Each pool holds different investments and has its own investment objective. Similar to UTS, the pools are divided into equal units, and the entitlement of a policyholder is tied to the investment return from a particular pool. The value of a policy is the number of units held multiplied by a unit price. Units have both a buy and sell price. Net premiums are invested at the pool's unit selling price, and upon surrender of the policy, those units are cashed-in at the pool's buying price as calculated by the life insurance company.

1.22 The value of a unit within a pool is based on the market value of the investments held within the pool. Investment management fees and other ongoing charges and expenses are deducted from the pool.

1.23 The investment returns relating to the pool are subject to tax at the rate applicable to a life insurance company. The unit price therefore reflects tax payable by the life insurance company on the investment income and realised profits on the disposal of investments. A provision for tax on unrealised capital profits is deducted from the value of investments in the pool before the unit prices are determined.

1.24 Consultants must note that investment-linked funds are not subject to monitoring by a Trustee nor are they subject to scrutiny by the SC. They are not required to meet the disclosure provisions within the rules and regulation of the SC. Investment-linked funds fall under the purview of BNM; and therefore, are required to comply with BNM's rules and regulations. Investors must be informed of this significant difference between UTS and investment-linked funds.

Size of the Malaysian Fund Management Industry

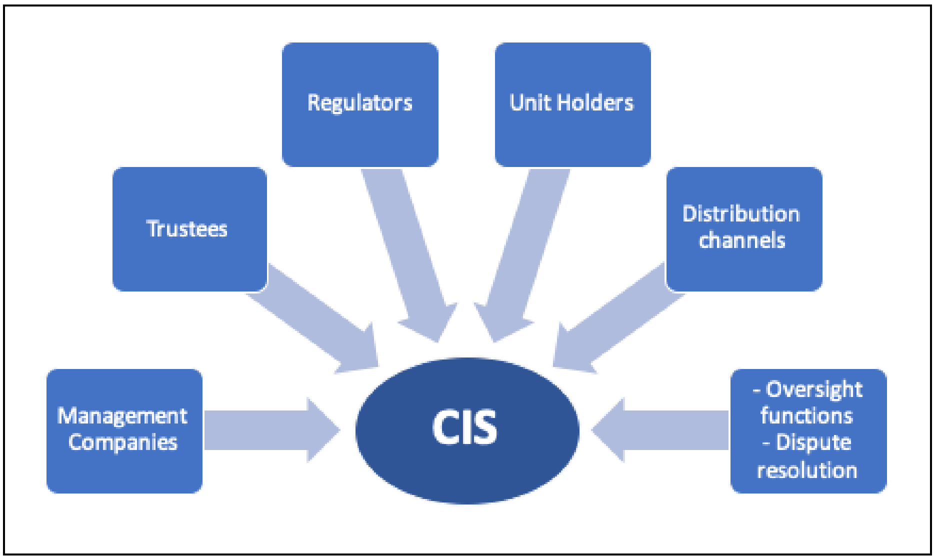
1.25 The fund management industry has been the fastest growing component in Malaysia's capital market over the last decade. UTS and Wholesale Funds have been the main drivers of growth within the fund management industry. Relevant data including the sources of funds for fund management industry are available at www.sc.com.my/analytics/fund-management-products.

1.26 The range and number of UTS have increased dramatically over the past few years. The introduction of PRS has provided investors with additional investment options while saving for their retirement. This trend is likely to continue as investors demand a wider range of services.

Participants of the CIS Ecosystem

1.27 The participants of the CIS ecosystem are as depicted in **Diagram 1.4**:

Diagram 1.4: Participants in CIS Ecosystem



1.28 The following paragraphs provide some descriptions about the participants of the CIS ecosystem:

Unit holders

1.29 A unit holder is recognised by law as an investor in the fund. Unit holders encompass individuals, institutions, companies, government bodies, charitable bodies, societies, associations, trusts and can also be other CIS. Their investment decisions may vary according to their investment needs and goals.

1.30 The rights of unit holders are stipulated in the CIS deed and offering documents (e.g. prospectus for UTS, disclosure document for PRS and information memorandum for Wholesale funds). It is essential for unit holders to read and understand their rights that are disclosed in the offering documents. Some sections of the offering documents highlight salient points of the deed. If unit holders find information disclosed in the offering documents is insufficient, unit holders should refer to the deed for further information. The offering documents provide guidance on how investors can obtain a copy of the deed e.g. by approaching the registered office of the Management Company.

1.31 Unit holders' rights include receiving distributions of the fund (if any) and participating in any capital value of the units and exercising such other rights and privileges as provided for in the deed. However, a unit holder would not have the right to require the funds' assets to be transferred to him or her. The unit holder also would not have the right to interfere with or question the Trustee for exercising the Trustee's rights as the registered owner of the funds' assets.

1.32 At the same time, unit holders' liabilities would be limited. Among others, they are not liable to indemnify the fund manager or Trustee in the event that the liabilities incurred by the fund manager or the Trustee exceed the value of the fund's assets.

Management Company

1.33 A Management Company is responsible for establishing, offering, marketing, operating and administering a CIS. Management Companies that manage CIS and engage in regulated activities under the Capital Markets and Services Act 2007 (CMSA) are required to be licensed by the SC.

1.34 A Management Company may outsource or delegate some of its functions. For UTS and PRS, the ultimate responsibility rests with the Management Company as stipulated in the UTF Guidelines and PRS Guidelines issued by the SC. Functions which are commonly outsourced by a Management Company are as outlined in **Table 1.3**:

Table 1.3: Functions commonly outsourced by a Management Company

	Function	Details on outsourcing
1.	Investment management	▪ An external Fund Management Company (FMC) is hired to manage the Fund's investments which includes stock selection, research and asset allocation. ▪ The FMC can be either a domestic or foreign licensed company.
2.	Fund accounting/Fund administration	▪ This function involves performing valuation of the fund's investments NAV, preparing the fund's financial statements and dealing with the auditor.
3.	Register of unit holders	▪ This role is also known as Transfer agency. It involves the maintenance of unit holders' records and details which includes recording subscriptions and redemptions of fund's units.

Trustee

1.35 A Trustee is an independent party that is required to be registered with the SC. Its main role is to protect the unit holders by:

(a) Safeguarding unit holders' investments where all the funds' assets must be held in the Trustee's name on behalf of the fund; and

(b) Ensuring that the Management Company adheres to all requirements stipulated in the deed and offering documents. For this, the Trustee monitors the operations and management of the fund by the Management Company which includes conducting independent reviews instead of solely relying on the information submitted by the management company.

1.36 Trustees may outsource their functions by appointing agents. For example, a Trustee may appoint a custodian to safeguard the fund's assets. There are also cases where Custodians appoint an external party to be a Sub-Custodian as this Sub-Custodian is within a regional or global group or if the fund's investments are in countries where the Custodians do not have presence.

1.37 For the purpose of protecting clients' assets, it is essential for a Trustee and the appointed agent or Custodian to establish an arrangement to ensure that the fund's assets are:

(a) Clearly identified as the fund's assets;

(b) Held separately from any other assets held by or entrusted to the Trustee; and

(c) Registered in the name of the Trustee or where the custodial function is delegated, in the name of the custodian to the order of the Trustee.

1.38 The Trustees are responsible for the actions of any agent they appoint.

Distribution channel

1.39 A Management Company may have its own in-house sales team to market and distribute its investment funds. They may also have other distribution channels. In the case of UTS and PRS in Malaysia, these Schemes are also distributed by other distribution channels which are UTS agency force, IUTA, IPRA, CUTA and CPRA. These distribution channels are discussed further in Chapter 3 of this study guide.

1.40 The decision on the type of distribution channel and distribution scope is commercial in nature and therefore is entirely the Management Company's prerogative. For instance, some Management Companies may decide on their distribution channel based on the type of their clientele (e.g. individuals, institutional, government-related etc.) and/or based on geographical location of their clients.

1.41 A Management Company is responsible for ensuring its distribution channels comply with the applicable regulatory requirements.

Regulators

1.42 As the regulator of the Malaysian capital market, the SC is the primary regulator for CIS. BNM is also involved due to its role in regulating areas such as Anti-Money Laundering, Countering Financing of Terrorism and Targeted Financial Sanctions for Financial Institutions (AML/CFT and TFS for FIs) and foreign exchange matters.

1.43 Other regulators are also involved in cases where the CIS is offered under a Passporting scheme (e.g. the ASEAN CIS passport) or other Mutual Recognition Schemes (e.g. Hong Kong or Dubai International Financial Centre).

1.44 FIMM is a self-regulatory organization (SRO) that is mandated by the SC to oversee the marketing and distribution activities of UTS and PRS. FIMM regulates its distributors and Consultants, who are UTMC, PRS Provider, IUTA, IPRA, CUTA, CPRA, UTS Consultants and PRS Consultants, to protect investors' rights through the establishment of rules that promote ethics and integrity. FIMM also ensures Consultants are competent and act in the best interest of the investing public.

1.45 The updated list of all FIMM Members can be found on its website - www.fimm.com.my. Consultants are encouraged to visit this website to be well acquainted with the industry development.

Oversight functions

1.46 Additional oversight functions have been put in place in order to protect the interest of unit holders. These oversight functions are as described in **Table 1.4**:

Table 1.4: CIS oversight function on the operation and management of the fund

<table>
<tr><th>Oversight function</th><th>Description</th></tr>
<tr><td>Management Company</td><td>To ensure that the fund is managed in accordance with:
a) its deed;
b) its prospectus;
c) the internal investment restrictions and policies; and
the requirements prescribed under the Guidelines.</td></tr>
<tr><td></td><td>The arrangement for the oversight function must be appropriate and proportionate to the nature and complexity of funds being managed by the management company:
<table><tr><th>Individual</th><th>Committee</th></tr><tr><td>Must be independent from the functions where the oversight arrangements are on to enable the individual to undertake its role effectively</td><td>Comprise some members who are not independent from the functions of the oversight arrangements, provided the committee must be able to undertake its roles and responsibilities effectively.</td></tr></table>
Any person and members of a committee who carries out the oversight function must not be a member of the Shariah adviser appointed for the same fund.</td></tr>
<tr><td></td><td>Where fund manager undertakes cross-trades between the funds it manages, or between the fund it manages and its other investors' accounts,-
a) the person undertaking the oversight function must approve the policies and procedures governing cross-trades; and
b) must provide details of any cross trades transacted</td></tr>
</table>

Oversight function	Description
	to the person undertaking the oversight function.

Financial Markets Ombudsman Service (FMOS) – Alternative dispute resolution

1.47 FMOS was established on 1 January 2025 arising from the consolidation between the Ombudsman for Financial Services (OFS) and the Securities Industry Dispute Resolution Centre (SIDREC). FMOS is appointed by Bank Negara Malaysia and the Securities Commission Malaysia to provide resolutions services to financial consumers and investors.

1.48 FMOS is mandated to resolve disputes between financial consumers and financial service providers in an independent, fair and timely manner:

a) By not taking sides and unbiased with resolving disputes; and
b) Making decisions based on relevant facts/evidence and circumstances of each dispute.

History of CIS: Milestones and Development Catalyst for UTS and PRS

1.49 The world's first UTS, The Foreign and Colonial Government Trust, was established in London in 1868 but UTS did not become particularly popular until much later. In the United States, in the 1950s, a CIS similar to UTS became popular - an open-end investment company, known as a mutual fund. UTS gained popularity in several countries including the United Kingdom and Australia in 1960s and 1970s.

1.50 Malaysia introduced the concept of UTS relatively early compared to its Asian neighbours when, in 1959, a unit trust was established by a company called Malayan Unit Trust Limited. However, there was no regulations governing CIS in Malaysia until the Capital Issues Committee issued the Guidelines on Unit Trust Funds in 1991. When the SC came into existence in 1993, the UTS industry in Malaysia was jointly regulated by the SC and the Registrar of Companies.

1.51 Significant initiatives to develop CIS in Malaysia began when the SC became the sole regulator for CIS in 1996. At this point, the focus was very much on developing the UTS industry in conjunction with the then Government's objective to encourage more retail participation in the domestic bourse via CIS products.

1.52 By investing in CIS products, retail investors will avail themselves to the technical expertise and research resource of professional fund managers. In the 1990s, it was observed that retail investors had insufficient knowledge and capability of the technicalities of investing. They also had the tendency to make their investment decisions based on rumours. This was one of the factors that had caused excessive market volatility during that period.

1.53 For the purpose of reducing market volatility, efforts were also put in place to increase the level of institutional investors' participation and at the same time enable these institutional investors to play an active role in ensuring good practice of corporate governance by the investee companies.

1.54 PRS was introduced in Malaysia in 2012 to address the growing challenges in the adequacy of retirement savings as the country progresses towards an ageing population. The PRS is a voluntary long-term savings and investment scheme designed to assist one in saving more for retirement. It forms the third pillar in a multi-pillar pension framework established by the World Bank and complements Malaysia's mandatory retirement savings scheme. Further details on the Malaysian pension and retirement landscape will be discussed in Chapter 7B of this study guide.

1.55 Several key focus areas have been identified to develop the Malaysian CIS industry which include enhancement in regulatory requirements, proper oversight on distribution channels, and implementation of measures to increase investors participation. These efforts have collectively contributed to the proliferation of new CIS products and diversification in assets classes and geographical exposure and ultimately the growth in the Malaysian fund management industry. [3]

1.56 The Islamic capital market in Malaysia plays a significant role and functions as a segment within the broader capital market industry for issuers and investors. It also complements the other components of the Islamic financial system, e.g. Islamic banking, takaful (Islamic insurance) and the money market sector. To further strengthen and chart the development and growth of the Islamic capital market, the SC has focused efforts on two fronts, namely to establish the supporting infrastructure and to widen the Islamic capital market product range.

1.57 The Islamic capital market has experienced substantial growth as evidenced by its market size. This information and other relevant data are available at SC's website via this link:
www.sc.com.my/analytics/fund-management-products

1.58 The steady growth and positive development of the Islamic capital market in this country has added to the breadth and diversity of the overall capital market industry. In addition, it has also supported and provided a major contribution to the overall growth of the financial services industry in Malaysia.

1.59 Further details on the development and key milestones of the UTS and PRS industry are available on FIMM's website.

[3] For more details on the historical growth of the UTS and PRS in Malaysia, kindly refer to the SC and FIMM website.

PRACTICE QUESTIONS

Question 1

Which of the following statements is true?

(A) Real Estate Investment Trust is a type of unlisted fund.

(B) An investment-linked fund is similar to UTS.

(C) CIS enables investors to pool their money and hand it to a professional fund management company to invest the money in various assets that meet the investors investment objectives.

(D) A Management Company must not outsource any of its functions

Answer: (C)

Question 2

Who are the participants in CIS ecosystem?

(i) Investors / Unit holders
(ii) Trustee
(iii) Management Company
(iv) Regulator
(v) Dispute Resolution
(vi) Federation of Malaysian Consumers Associations

(A) i, ii, iii, v, vi

(B) i, ii, iii, iv, v

(C) i, ii, iii, iv, vi

(D) All of the above

Answer: (B)

Question 3

Investment-linked funds that invest in capital market products must comply with the SC's regulations.

(A) True

(B) False

Answer: (B)

CHAPTER 2

INTRODUCTION TO UTS AND PRS

Learning Objectives

This chapter focuses on the key features of UTS and PRS, the benefits of investing in these products, as well as the associated risks that investors need to be aware of.

At the end of this chapter, you should be able to understand and describe the:

- Key features of the UTS and PRS, as well as the similarities and differences between them;
- Different types of UTS and PRS;
- Methods of investing for UTS and PRS;
- Benefits and disadvantages of Scheme investments;
- General risks associated with Scheme investments to investors; and
- The role of the SAC.

INDUSTRY COMPETENCY FRAMEWORK

Competency Level

1. Core – Customer Focus (Level 3)
2. Foundational Competency (Product) – FOP02 Capital Market Fundamentals (Level 3)
3. Foundational (Regulatory) –
   i. FOP03 Capital Market Products (Level 3)
   ii. FOP04 Islamic Capital Market Products (Level 3)
4. Functional (Process) – FUP11 Investment Product Management (Level 2)
5. Foundational (Product) – FOP03 Capital Market Products (Level 2)

UTS and PRS as an Investment

2.01 UTS bridges the gap between low-risk investments, such as bank deposits and investments with better returns at an acceptable risk. It provides an ideal avenue for investors with smaller capital (and high net worth individuals) to gain exposure to a wide range of investment opportunities at a reasonable cost. UTS enables investors to accumulate wealth and manage the impact of inflation in the medium to long term.

2.02 In the short run, the certainty of investment returns is far less than those offered by fixed deposits. However, in the medium to long term (e.g. over five years), investments in many UTS can provide far better returns at an acceptable level of risk.

The Mechanics of Investing in UTS and PRS (Scheme)

2.03 Investors in a Scheme do not purchase the securities in the portfolio directly. These investors, that have similar investment objectives, pool their savings and invest in a portfolio of securities or other assets and investments managed by investment professionals. Ownership of the portfolio is divided into units of entitlement and each investor is known as a "unit holder". A unit in a Scheme represents a proportionate "share" of the pool of investments. As the investments within the Scheme portfolio increase or decrease in value, the value or "unit price" of each unit increases or decreases accordingly.

2.04 Investors in a Scheme are not shareholders of the companies in which the fund invests. Instead, they are beneficiaries under a trust established by the Scheme Providers namely the UTMC/PRS Providers. Under the Scheme constitution or "deed", a Trustee is appointed to safeguard the interests of the investors. The Trustee, as the legal owner of all the assets of the Scheme held on behalf of the Unit holders, has a fiduciary duty to act in the best interests of the Unit holders.

2.05 Investors in a Scheme have a beneficial interest in the Scheme but do not have the authority to direct Scheme Providers on day-to-day operational matters, including the management of the portfolio of investments. The composition of fund assets may change throughout the year (e.g. from the initial subscription cash to equities and back to cash again for distribution), but these assets always remain under the control of the Trustee. In the event the Scheme Provider encounters financial difficulties and has solvency issues, the unit holders/Members' assets remain safe as they are segregated from the assets of the Scheme Provider, preventing any claims by the Scheme Provider's creditors.

2.06 Investors in a Scheme subscribe to units after reading and understanding the prospectus/ disclosure document, which provides all the necessary information about the Scheme, and by completing an application form. As evidence of their investment in a Scheme, each investor receives a confirmation of entitlement in the form of a statement. However, some pioneer investors may still hold unit certificates as evidence for their investments in a Scheme.

The number of units in the Scheme held by each investor depends on the unit price at the time the investment was made and the amount of application money contributed by the investor. **Diagram 2.1** provides the reproduction of a sample of a UTS confirmation statement and an illustration on the calculation of units purchased and sold.

Diagram 2.1: A sample of a confirmation statement

Confirmation Statement

XYZ EQUITY FUND

Date	Transaction Type	Amount Received / Amount Paid (RM)	Charges %	Investment Amount / Redemption Proceeds (RM)	Unit Price (RM)	Transaction Units (No. of Units)	Unit Balance (No. of Units)
OPENING BALANCE							7,800.58
18/09/2020	Subscription	50,000.00	5.5	47,393.36	1.5561	30,456.50	38,257.08
25/09/2020	Redemption	30,000.00	-	30,000.00	1.6552	18,124.70	20,132.38

Examples for the calculation for (1) Investment Amount, (2) Number of Units Subscribed and (3) Redemption Proceeds are as follows:

$$(1)\ Investment\ Amount = \frac{Amount\ Received}{1 + Charges}$$
$$= \frac{RM50{,}000}{(1 + 0.055)} = RM47{,}393.36$$

$$(2)\ Number\ of\ Units\ Purchased/Subscribed = \frac{Investment\ Amount}{Unit\ Price}$$
$$= \frac{RM47{,}393.36}{RM1.5561} = 30{,}456.50\ units$$

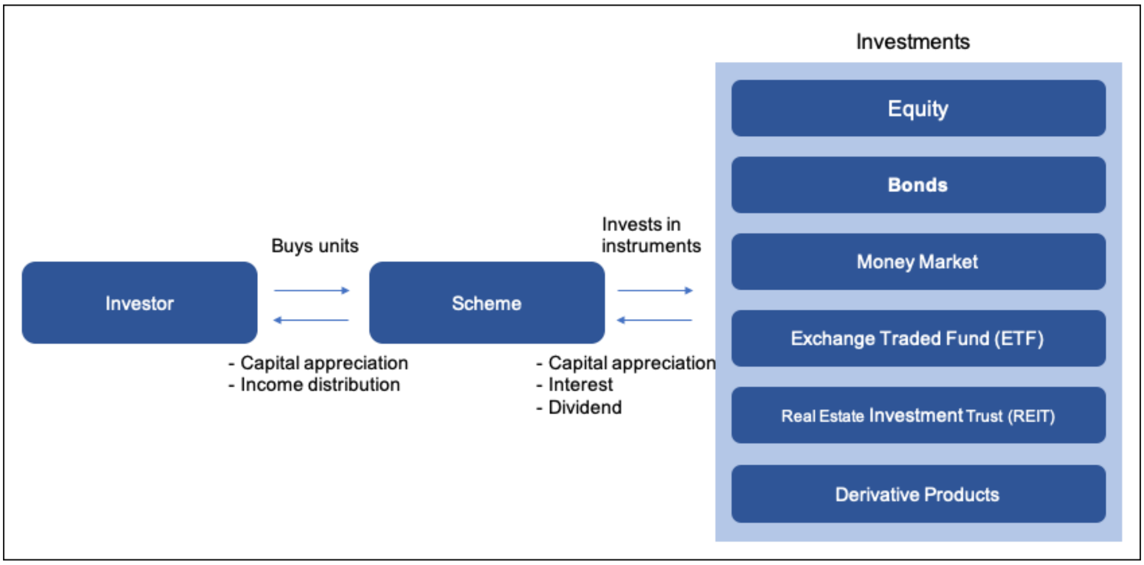
$$(3)\ Redemption\ Proceeds\ = Transaction\ Units\ x\ Unit\ Price$$
$$= 18{,}124.70\ x\ RM1.6552 = RM30{,}000$$

2.07 The return on investment for investors in a Scheme is usually a combination of income payment (“income distribution”) and capital appreciation, derived from the pool of investments held within that Scheme. Each unit represents an entitlement to an equal amount of income (determined by the level of distribution declared by Scheme Provider) and capital appreciation or depreciation that is normally reflected in the unit price of that Scheme.

2.08 There is a wide range of types of Scheme available, including income and capital growth funds; equity (share), real estate and fixed income (bond) funds; and funds managed in accordance with Shariah principles.

2.09 A summary of the mechanics of investing in Scheme is illustrated in **Diagram 2.2**.

Diagram 2.2 The mechanics of investing in a Scheme



2.10 Investors in a Scheme are typically those with relatively small amounts to invest, who have neither the time nor the inclination to manage portfolios of direct investments in shares or other assets. These Schemes allow investors with smaller capital to have easy access to a wide range of investments to which they would not normally have ready access.

Similarities and Differences between UTS and PRS

2.11 UTS and PRS share the following main characteristics where both:

(a) provide diversification of asset;
(b) have a Trustee to look after the interest of the investors;
(c) involve pooling of savings by investors where these savings are invested according to the objective and guidelines of the funds that make up the schemes; and
(d) are schemes that encourage investors to make long-term savings and investment decisions.

2.12 While the mechanics of investing in PRS is generally similar to that of UTS and the underlying products (e.g. funds) are the same, the PRS is governed by a completely different set of rules and regulations which, amongst others, include the appointment of the Private Pension Administrator (PPA) that is approved by the SC to provide efficient administration, industry advocacy and development for the PRS industry.

2.13 Further details on the features and operation of UTS and PRS are provided in Chapter 7A and Chapter 7B of this study guide.

Shariah-Compliant Schemes

2.14 A Shariah-compliant Scheme is quite similar to a conventional scheme, **EXCEPT** that all activities must comply with Shariah requirements. A Conventional Scheme and a Shariah-compliant Scheme may differ in the following areas:

(a) Objectives of the fund;
(b) Investment strategy;
(c) Operations and management of the fund;
(d) Documentation;
(e) Investment avenues and activities; and
(f) Accounts and reporting.

2.15 The objective of a conventional scheme is usually to achieve returns that are composed of both capital and income growth. Achieving this objective would depend on, among others, the fund size, period of investment, investment strategy as well as the type of instruments that are invested in, and the ability to manage risk. The objective of a particular Shariah-compliant Scheme is to achieve both capital and income growth within the scope of Shariah principles. Hence, the investment strategy would need to be aligned with the objective of a Shariah-compliant fund.

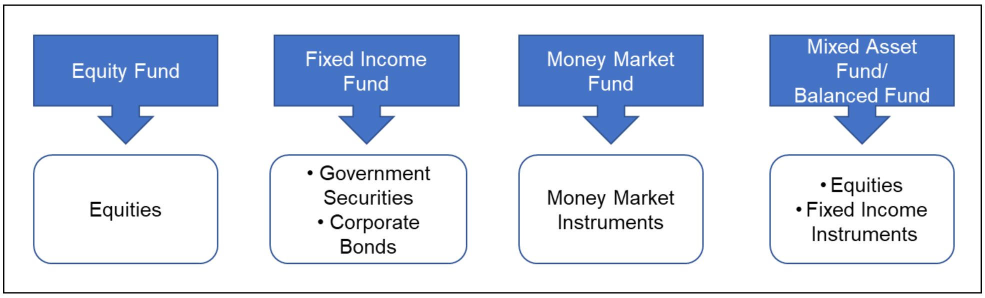
2.16 The Scheme Provider must ensure that all daily operations of a Shariah-compliant Scheme comply with all the requirements of the SC as well as Shariah requirements. Compliance and supervisory function relating to Shariah matters are further enhanced by the role played by the schemes' Shariah Adviser/Committee.

Types of Funds/ Fund Categories

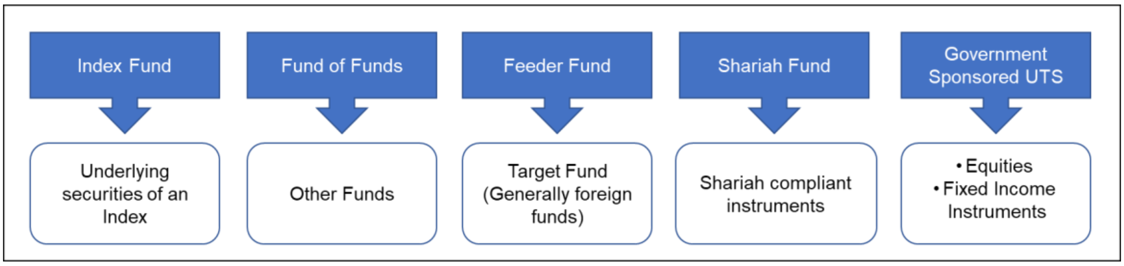
2.17 Funds can be categorised by the asset class in which the funds are invested in, by the fund structure or by their investment objectives. As an overview, **Diagram 2.3** provides an illustration of these fund types.

Diagram 2.3 Fund Types

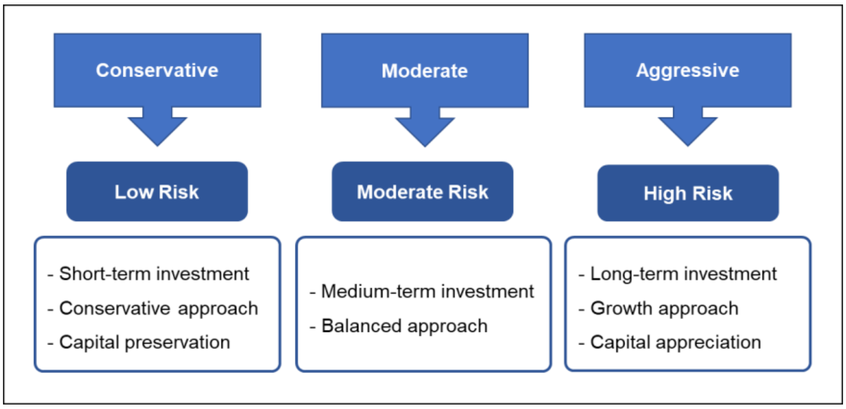
(a) By asset class



(b) By fund structure



(c) By risk profile



By asset class

<u>Equity funds</u>

2.18 Equity funds are the most common type of funds in Malaysia. These funds invest predominantly in equities.

2.19 Equity funds are popular as they provide investors with exposure to companies listed in Malaysia and overseas. The performance of most equity funds is therefore closely linked to the performance of share markets invested. As the share prices move, prices of units in the Scheme move in tandem with the movement of the share prices.

<u>Fixed Income funds</u>

2.20 These funds invest in instruments that pay a fixed rate of returns such as Malaysian Government Securities and corporate bonds. The objective of a fixed income fund is usually to provide regular income, with less emphasis on producing capital growth for investors. It is possible, however, for a fixed income fund to generate both capital gains and losses during periods of volatile interest rates.

2.21 Generally, the volatility or risk associated with fixed income funds is lower than that of equity funds. Fixed income securities are usually more secure, especially if they are held to maturity. It is therefore expected that over the long term, the returns offered by fixed income funds are lower than those offered by equity funds. However, this is not always the case and there have been instances where fixed income funds have outperformed equity funds, and with significantly less risk.

2.22 Returns from fixed income securities can vary with the remaining tenure of the securities. Generally, fixed income securities with a short period to maturity are less volatile than those with a longer period to maturity. Some Scheme Providers have promoted “short-term” fixed income fund, where income represents most of the total return obtained by investors and changes in unit prices are minimal.

2.23 Often, fixed income fund are held by an investor as part of his or her investment portfolio in order to reduce the risk level of the portfolio. The reason for this is that investment returns from fixed income securities can have a negative correlation with those of equities, e.g. when returns from investing in share markets are falling, the returns from fixed income securities may be more positive. This negative correlation can be a useful tool in the management of risk in an investor’s portfolio.

Money Market funds

2.24 Money market funds operate in a similar way to a bank account, and there is no entry or exit charges levied by Scheme Providers. This fund invests in low-risk money market instruments such as short-term deposits to banks and short-term debt securities. Money market fund invests primarily in short-term debt securities, short-term money market instruments and placement in short-term deposits. The money market fund is therefore highly liquid and ideal for use as a short-term investment for investors’ savings, or for longer periods. Income distributions to investors are paid regularly and frequently, and reflect the generally higher interest rates available to institutional investors in the money markets.

Mixed Asset funds/Balanced funds

2.25 Some investors may wish to have an investment in all the major asset classes to reduce the risk of investing in a single asset class. There are two ways to achieve this - either invest directly in a range of single asset class funds (e.g. an equity fund and a fixed income fund and REIT); or invest in a single fund that invests in several asset classes.

2.26 A mixed asset fund invests in both equities and fixed income, depending on the potential returns, subject to adjusted risks. It is also sometimes referred to as dynamic funds as the equities and fixed income proportions or mix are actively managed in response to market movement.

2.27 A balanced fund, which is a sub-set of the mixed asset fund, generally has a portfolio comprising equities, fixed income securities, cash and property - although property exposure is obtained through holding units of listed REITs and shares of real estate or construction companies. While PRS is allowed to invest in real estate, direct property will not normally be held as it is illiquid. Direct investment in real estate is not allowed for UTS.

2.28 Mixed asset funds exhibit lower volatility than most single asset class funds (except money market funds) but generally offer some prospect of returns higher than those available from money market funds, savings accounts and fixed deposits. Some mixed asset funds have a higher component of growth assets (principally equities) to appeal to investors who are comfortable with some risks, whereas lower-risk investors may prefer to invest in mixed asset funds that invest a higher proportion of the portfolio in more defensive assets (e.g. fixed income securities and cash). A more defensively invested mixed asset funds may generate a more consistent distribution but produce lower capital growth.

By fund structure

Index funds

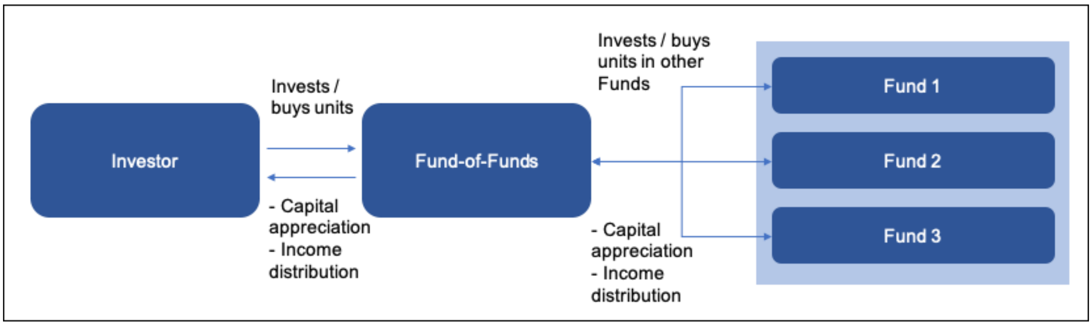
2.29 An index fund is a fund whose principal objective is to track, replicate or correspond to an index on permissible investments, with the aim of providing or achieving investment results or returns that closely match or correspond to the performance of the index. These funds invest in securities that comprise the components of a chosen index. The said index will then be the reference for measuring the performance of the fund. For example, investors who participate in FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBMKLCI) fund expect to generate investment returns that closely resemble the FBMKLCI, both in terms of risks and returns. Index funds are also referred to as "Tracker Funds" due to its modus operandi of "tracking" an index.

Fund-of-funds

2.30 A fund-of-funds is one which invests at least 85% of its NAV in other CIS. Further, fund-of-funds may invest up to 15% of its NAV in the following permitted investments:
(a) Money market instruments that are dealt in or under the rules of an eligible market and whose residual maturity does not exceed 12 months;
(b) Placement in short-term deposits;
(c) Derivatives for the sole purpose of hedging arrangements.

Diagram 2.4 provides an illustration of the structure of a fund-of-funds

Diagram 2.4 Structure of a fund-of-funds



In terms of investment spread limits, the requirements differ between UTS and PRS as illustrated in table 2.1 below:

Table 2.1

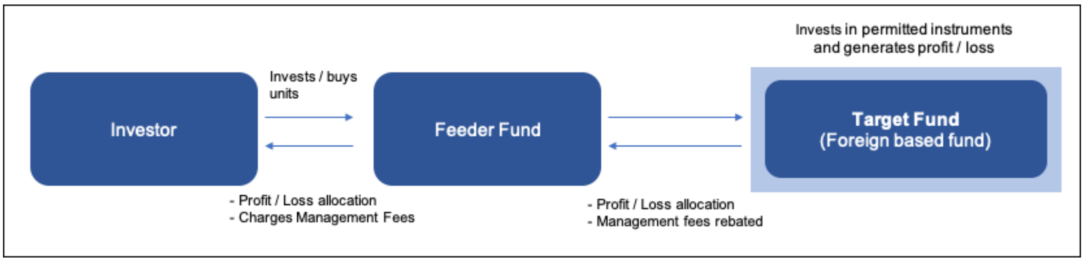
UTS Investment spread requirements under UTF Guidelines	**PRS** Investment spread requirements under PRS Guidelines
▪ A fund-of-funds must invest in at least five CIS at all times. ▪ The value of a fund's investments in units or shares of a CIS must not exceed 30% of the fund's NAV, provided that the CIS complies with – (a) paragraph 6.11(a); (b) paragraph 6.11(b); or (c) paragraph 6,11(c), excluding CIS that invests in real estate.	▪ The value of a fund's investments in units or shares of a CIS must not exceed 30% of the fund's NAV, provided that the CIS complies with – (a) paragraph 8.15A(a); (b) paragraph 8.15A(b); or (c) paragraph 8.15A(c), excluding CIS that invests in real estate.

<u>Feeder funds</u>

2.31 This fund is created to feed into another fund (e.g. target fund) which usually is a foreign-based fund. Under GUTF and GPRS, a feeder fund is one which invests at least 85% of its NAV in units or shares of a single CIS. The feeder fund usually mimics the objective of the target fund. The purpose of a feeder fund is to enable the offer of the foreign-based fund to local investors, which might not be possible due to local regulatory restrictions or to take advantage of the foreign fund manager's expertise.

2.32 It is important to note that there are two (2) layers of management fees imposed in this type of fund. The first layer is at the "feeder fund level" (e.g. the fund that the investor invests in) and the second layer is at the "target fund level" (e.g. the fund that the feeder fund invests in). Normally, the feeder fund would get a rebate on the management fee charged by the target fund which would be offset against the target fund's total fees. This is normally disclosed in the fund's offering document. **Diagram 2.5** provides an illustration of the structure of a feeder fund and the management fee charged to investors

Diagram 2.5 Structure of a feeder fund and the management fee charged to investors



<u>Islamic funds</u>

2.33 The main purpose of Islamic Funds is to provide an alternative avenue for investors who are sensitive to Shariah requirements. Islamic funds invest in a portfolio of halal companies, Islamic Debt Securities and Sukuk or other securities in accordance with Shariah principles. Halal companies exclude those companies involved in activities, products or services related to conventional banking, insurance and conventional financial services, gambling, alcoholic beverages and non-halal food products.

2.34 A Shariah-compliant Scheme can only invest in instruments that comply with Shariah requirements, subject to the approval from the Shariah Advisory Council of the SC and/or the Shariah Committee / Shariah Adviser and in accordance with the fund's objectives.

2.35 Any excess cash and other liquid assets are to be kept / invested in Shariah-compliant instruments, e.g. Islamic current account or investment account. The returns of Islamic funds will also avoid the incidence of *riba*' or *usury* interest through a unique systematic process of cleansing or purification in removing the amounts representing all non-Shariah compliant elements. Such amounts are normally donated to charities.

<u>Government-sponsored funds</u>

2.36 Government-sponsored UTS is a significant component of the UTS industry in Malaysia. These funds generally invest on a balanced basis although equity-invested UTS are also available. Equity invested government-sponsored UTS may have a fluctuating or variable unit price while those UTS investing in more balanced portfolios normally have a fixed RM1.00 unit price and operate on an account basis, e.g. an "earnings" rate (representing the total returns of the investment portfolio UTS for the year) is credited annually to each investor's account balance.

By investment objectives

2.37 Equity funds are also typically categorised by their investment objectives. There is a wide array of equity funds available in the market, ranging from funds with higher risk-higher return characteristics to those with lower risk-lower returns. Equity funds labelled as Growth Funds generally invest in companies with higher capital growth potential or companies whose earnings are expected to grow at an above-average rate either for its industry or the overall market. However, Growth Funds are generally associated with higher risk or the funds' unit prices have higher volatility.

2.38 Income Funds are typically invested with an income objective. This means that the funds will invest primarily in companies that are expected to pay regular dividends. These companies are typically large and well-established companies that pay regular dividends.

2.39 Growth and Income Funds, on the other hand, may invest in a mix portfolio of shares of listed companies with a relatively smaller market capitalization, as well as companies with a large market capitalisation or “blue chip”.

Methods of Investing

2.40 There are several ways to invest in the Schemes as described in the following paragraphs.

Lump sum purchase

2.41 A lump sum purchase is the most common means by which savings are invested in a Scheme. Provided that the amount of investment meets the Scheme Providers’ minimum application amount, the investor can invest his or her savings in the Scheme after he or she has completed an application form. With a lump sum purchase, there is no further commitment to adding to the initial investment in the Scheme. Over a period of time, it is expected that the initial investment in most Schemes will grow as dividend income and capital gains are earned by the Scheme.

2.42 When the investor ultimately disposes of his or her units, the repurchase price of a unit will reflect the accumulation and compounding of investment returns over the period since purchase. It is the compounding of investment returns over time that makes investments, such as the schemes, attractive to investors.

2.43 For example, a portion of a recently inherited sum of money may be invested in the Scheme and held for an extended period for some specific purposes, e.g. children’s education, retirement planning and house purchase. At the end of the period, the proceeds from disposal of the units will reflect the initial investment made plus any returns on that amount compounded over the relevant period. Of course, if the investment returns are negative, the investor will not receive (on disposal of the units in the Scheme) the amount of his or her initial investment.

Reinvestment of income

2.44 By reinvesting income distributions from a Scheme (e.g. by directing the Scheme Provider to use the distribution payable to an investor to buy more units in the Scheme for the investor), an investor can acquire, each time the income distribution is made, a small number of additional units that, over time, can add significantly to total returns from investing in the Scheme. Often, small amounts of distributions from investing in the Scheme are normally fully used rather than saved by investors. Reinvestment of distributions is therefore a simple and easy way to increase investment in the Scheme.

2.45 Where an investor instructs the Scheme Provider to reinvest income distributions due to him/her, the amount of income distribution is used to purchase additional units. Some Scheme Providers automatically reinvest distributions, in line with investors' standing order; others provide additional units through a unit-split. The beneficial effect of compounding investment returns is the same.

Regular savings

2.46 Some investors invest in the Scheme by making regular (e.g. monthly) contributions - in effect, a series of smaller lump sum investments. Contributions are not contractual and can be stopped at any time without penalty. This is a disciplined, useful and flexible way for investors to accumulate capital for a future need.

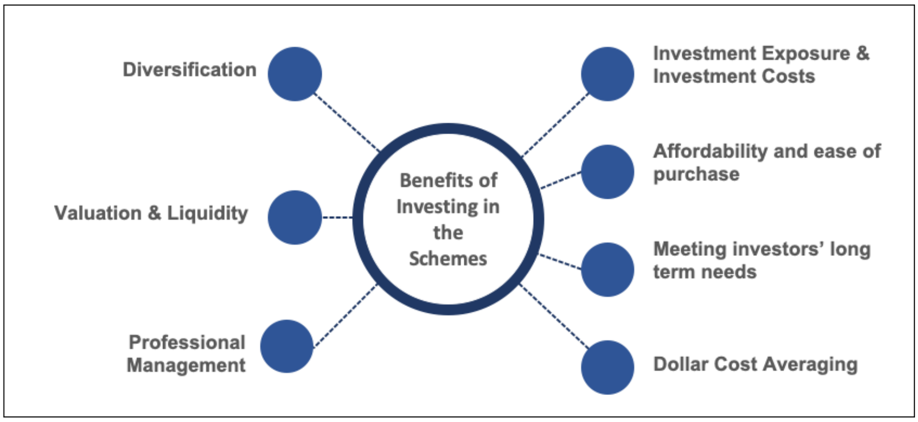
2.47 The proceeds from the disposal of the units may represent the accumulation of all contributions, plus returns generated by each contribution. In this case, the amount accumulated is likely to be greater than when contributions are made and the units are held in a longer period. This form of savings is the basis of retirement savings through, for example, the EPF.

2.48 Investing in the Schemes through regular savings is very attractive to investors with smaller capital because they can participate with a low capital outlay.

Benefits of Investing in the Schemes

2.49 The benefits of investing in the Schemes are summarised in **Diagram 2.6**. This is followed by an explanation for each of the benefits.

Diagram 2.6: Benefits of investing in the Schemes



Diversification

2.50 A larger pool of funds allows the fund managers managing the Schemes to purchase a wide range of investments. Rather than limiting an investment portfolio to one or two investments, a portfolio comprising many investments can be held. The Schemes' investors therefore may benefit from the 'portfolio effect', e.g. generally, the greater the number of investments, the less volatile (variable) the investment returns will be. In other words, investment in the Schemes poses lower risk exposure for investors who are unable to acquire a wide range of investments because of limited savings.

2.51 Investors in the Schemes can obtain much wider diversification with their capital because the portfolios of the Schemes are generally invested in a wide range of securities (20-100 counters in the case of an equity Scheme). If an investor invested all his or her capital in a single counter, he or she could lose all if the company performed poorly or went into liquidation. An equity Scheme spreads the risk of loss of investors' capital by holding a portfolio of counters. Such a portfolio is expected to behave in a less volatile manner than a portfolio of only one or two counters. In simple terms, it means risk is reduced.

2.52 The investment of some Schemes may also be diversified across asset classes. In addition to shares, a Scheme may invest in fixed income securities, property and cash. These investments will provide an element of stability in a declining stock market, and may provide some liquidity when meeting the repurchases of the Schemes investors.

2.53 Investors with smaller capitals would find it difficult to achieve comparable diversification within their investment portfolio as their capital is limited. Additionally, they may not have access to the up-to-date information required to make informed investment decisions regarding diversification. An investment in the Scheme would give them automatic diversification with only a small amount of capital.

2.54 To understand how a diversified investment could help an investor, a simple illustration is provided below by comparing the value of a non-diversified investor as illustrated in **Table 2.1A** and that of a diversified investor as illustrated in **Table 2.1B**:

Table 2.1A: Non-diversified portfolio of investor -Value of investment after price movement

Counter	No of shares	Price (RM)	Value of Investment (RM)
X	2,000	5.00	10,000
If price moves 20% lower to RM4.00			8,000
Investment loss is			**(2,000)**

2.55 **Table 2.1A** shows that the investor has invested all his or her RM10,000 in a single counter. As the price falls, he or she suffers a significant loss.

2.56 Assume the investor has instead invested RM10,000 in three counters. **Table 2.1B** shows the value of the investors' investment if the price of X drops to RM 4.00, while Y and Z rise 25% each:

Table 2.1B: Diversified portfolio of investor - Value of investment after price movement

Counter	No of shares	Initial investment		After price movement	
		Price (RM)	Value of Investment (RM)	Price (RM)	Value of Investment (RM)
X	1,000	5.00	5,000	4.00	4,000
Y	1,000	3.00	3,000	3.75	3,750
Z	1,000	2.00	2,000	2.50	2,500
Total investment value			**10,000**		**10,250**

2.57 **Table 2.1B** shows that with the same capital outlay, the investor now has a portfolio comprising three counters. The drop in the price of X has been compensated for by the rise in the prices of Y and Z, which results in the investor enjoying a small return for his or her capital despite a 20% drop in the price of one counter representing half of the portfolio. Even if the prices of Y and Z remained unchanged, the portfolio would be worth $9,000 - a fall of 10% compared to the 20% in the value of the non-diversified portfolio. These scenarios clearly show diversification benefits the investor by preventing and minimising overall losses.

Valuation and liquidity

2.58 Most investors require that their investments to be liquid, e.g. the investment can easily be sold within a short period of time. Basically, liquidity is a measure of how long it takes for an investor to sell his or her investment. In some cases, an investor can be left holding shares or property that cannot be sold, sometimes at any price. An investment that is expected to produce an excellent return, but which cannot be sold does not necessarily constitute a good investment, as poor liquidity forms an additional risk factor for the investor.

2.59 The Schemes provide liquidity as units can be bought and sold readily through the Distributors. Scheme Providers are required by the SC guidelines to conduct fund valuation on a regular basis and in any event, on the days of the fund's dealing day in accordance with the deed so that units can be bought and sold readily. They are required to ensure fund valuation and pricing is conducted objectively, independently and verifiable by managing the pricing and valuation process in line with the policies and procedures. These requirements enable investors to better assess and compare their investments.

2.60 Scheme Providers are obliged to repurchase an investor's units when asked by the investor to do so. Liquidity is a very important benefit that investment in the Schemes has compared to other forms of investment.

2.61 Furthermore, the SC Guidelines require Scheme Providers to pay the proceeds of the repurchase of units to investors as soon as possible, at most within 7 business days of receiving the repurchase request.

Professional management

2.62 For an investor who is unable or unwilling to research and analyse investment markets and products on his or her own, the Schemes are ideal investments. To maintain a portfolio of directly held investments, an individual needs to keep up-to-date with information and sentiment on markets and products. In today's fast-moving and increasingly sophisticated financial markets and products, this means keeping track of a wide range of information from many sources. For many individual investors, this is difficult, time-consuming and expensive.

2.63 Investing in the Schemes transfers most of the stress of investing to those best equipped to handle it - professional fund managers. Their training, background and resources available ensure that the investment process adopted by the Schemes is structured and follows the required investment principles. The Schemes are managed by skilled personnel that has the breadth and depth of investment knowledge and experience. In the long term, it is this expertise that could generate above-average investment returns for investors.

2.64 For investors with smaller capital, the Schemes are one of the few avenues of investment where they can obtain professional management of their assets at reasonable charges. All investors benefit equally with respect to investment advice since the units are distributed equally amongst all unitholders based on their investment amount. The fund managers have years of experience in handling investments and focus on investing the Schemes for the benefit of all Investors, irrespective of the number of units a unit holder has.

2.65 Fund managers have access to a wide range of resources and information including specialised research and market analysis, which is required for effective investment management in today's markets. The portfolio management process of the Schemes also involves an oversight arrangement, which sets and monitors investment policies and strategies for the Schemes, while the fund manager provides the research, analysis of asset allocation and investment recommendations. Investors with smaller capital investing directly cannot generally match this level of expertise.

Investment exposure and investment costs

2.66 For investors with smaller capital, it is sometimes difficult to gain exposure to a particular asset class or to certain securities. For instance, if an investor with RM1,000 wishes to invest in real estate, international securities markets or corporate bonds, it would be impossible for him or her to make a direct investment in any or all of these markets. With the Schemes, it is possible for the investor to invest his or her savings in one, or a combination of all, of these investments. The investor can therefore tailor his or her investment exposure to meet his or her objectives.

2.67 When making direct investments, the investor with smaller capital faces transaction costs, e.g. stockbroker commissions, that are much higher than those paid by large institutional investors such as Scheme Providers or fund managers. Scheme Providers or fund managers invest large amounts on behalf of the Schemes, so economies of scale apply.

2.68 Also, because fund managers invest much larger amounts, they are able to gain access to institutional rates of return to which investors with smaller capital may have no, or only limited access. Fund managers have ready access to this market because of the amount that they can invest at any one time. Institutional investors, including fund managers, often receive preferential allocations of initial public offerings of shares of companies seeking to be listed, to which investors with smaller capital are excluded or limited allocation.

Affordability and ease of purchase

2.69 The Schemes are affordable as investors can start with an investment amount as low as RM10. Another advantage of investing in the Schemes is that investors can easily buy units. An interested investor just needs to contact the Schemes Distributor to obtain a prospectus/disclosure document that contains all the relevant information required for an investment decision.

Meeting Investors' long-term needs

2.70 An investment in the Schemes is suitable to meet most of the longer-term savings' objectives of investors as it is an investment meant to be held for long term. Investors' long-term savings objectives include:

(a) home purchase or an overseas holiday;
(b) children's future education costs; and
(c) a retirement fund to complement EPF, for a more comfortable retirement for the Investor.

Dollar cost averaging

2.71 Investors in the Schemes can potentially benefit from applying the concept of dollar cost averaging.

2.72 The concept refers to the systematic and regular investment of a fixed amount of money, irrespective of the price level of the investment at the time the investment is made. This can reduce the average cost of the investments acquired to below the average price of those investments during the period.

2.73 The rationale for investing in this way is that it is difficult, if not impossible, to invest at the bottom of the market, and most investors (particularly investors with smaller capital) are likely to be better off investing on a regular basis throughout all stages of a market cycle rather than investing all their capital at one time.

2.74 By using the concept, it is said that investors can turn fluctuating prices to their advantage; especially if prices are moving down, they can purchase more units and reduce the average cost of their entire investment portfolio. By buying more units when prices are low and fewer when they are high, investors give themselves an advantage over other investors who try to time their investment decision – and may get it wrong.

2.75 Take the example of investor A and investor B who both invest the same amount of money over a fixed period. Investor A consistently buys a fixed number of units, irrespective of the unit price. This means the investment amount varies according to the unit price. On the other hand, Investor B applies the dollar cost averaging concept and invests a fixed ringgit amount each period, e.g. the number of units each period varies according to the unit price.

2.76 The results under different market scenarios are shown in **Table 2.2A, Table 2.2B** and **Table 2.2C**:

Table 2.2A: Impact on average unit cost in a falling market

Unit price (RM)	Investor A Buy the same no. of units		Investor B Dollar cost averaging	
	Units Bought	Cost (RM)	Units Bought	Cost (RM)
10.00	1,000	10,000	600	6,000
8.00	1,000	8,000	750	6,000
6.00	1,000	6,000	1,000	6,000
4.00	1,000	4,000	1,500	6,000
2.00	1,000	2,000	3,000	6,000
Total	**5,000**	**30,000**	**6,850**	**30,000**

Average unit cost for investor A: **RM6.00** (RM30,000 ÷ 5,000 units)
Average unit cost for investor B: **RM4.38** (RM30,000 ÷ 6,850 units)

2.77 With the same capital available for investment of RM30,000, investor B, who adopts the dollar cost averaging principle, has 1,850 more units than investor A, who keeps buying the same number of units when the price drops. Over the period, the average unit cost for investor B is only RM4.38, while the average unit cost for investor A is RM6.00. If the price of units recovers, this will provide better returns for investor B over investor A.

Table 2.2B: Impact on average unit cost in a rising market

Unit price (RM)	Investor A Buy the same no. of units		Investor B Dollar cost averaging	
	Units Bought	Cost (RM)	Units Bought	Cost (RM)
2.00	1,000	2,000	3,000	6,000
4.00	1,000	4,000	1,500	6,000
6.00	1,000	6,000	1,000	6,000
8.00	1,000	8,000	750	6,000
10.00	1,000	10,000	600	6,000
Total	**5,000**	**30,000**	**6,850**	**30,000**

Average unit cost for investor A: **RM6.00**
Average unit cost for investor B: **RM4.38**

2.78 You can see that over the period of rising prices, investor B retains his/her average unit cost advantage.

Table 2.2C: Impact on average unit cost in a fluctuating market

Unit price (RM)	Investor A Buy the same no. of units		Investor B Dollar cost averaging	
	Units Bought	Cost (RM)	Units Bought	Cost (RM)
10.00	1,000	10,000	600	6,000
6.00	1,000	6,000	1,000	6,000
8.00	1,000	8,000	750	6,000
6.00	1,000	6,000	1,000	6,000
2.00	--	--	3,000	6,000
Total	**4,000**	**30,000**	**6,350**	**30,000**

Average unit cost for investor A: **RM7.50**
Average unit cost for investor B: **RM4.72**

2.79 In a fluctuating market, the benefit of the dollar cost averaging concept is even more significant. In the above illustration, with the same investment capital of RM30,000, investor B managed to buy 6,350 units, while investor A had only 4,000 units. The average unit cost for investor B is RM4.72 and the average unit cost for investor A is RM7.50. The average unit cost for investor B in a fluctuating market remains lower than the average unit cost of investor A in a rising or in a declining market.

2.80 The popular dollar cost averaging concept helps (but does not guarantee) an investor to obtain favourable long-term investment results where the trend in unit prices is upwards. Note that both investors in the first and last examples have lost money over the period of investment. As the stock market and unit prices fluctuate, a systematic investment programme in a Scheme will tend to enhance performance during periods of declining or rising prices. Investors, however, must remember that dollar-cost averaging should be used over long periods to maximise its benefits.

2.81 Given that most investors in a Scheme invest for the long term, the concept of dollar cost averaging works well although there are no guarantees of investment performance. Its real value lies in a commitment to regular investment, irrespective of market fluctuations. It avoids the need to decide to invest when the market appears to be too high, or to be hitting new lows. Investors buy more units at market lows when fear is greatest. As the market recovers, such purchases will prove timely.

Disadvantages of the Schemes

2.82 Whilst there are benefits in investing in the Schemes, investors must also be aware of the disadvantages. The main disadvantages are as follows:

Loss of control

2.83 Investors in Schemes lose the right to direct how their savings are invested. Scheme Providers or fund managers invest in accordance with the prospectus/disclosure document and deed even if there are changes in market conditions or investment trends. If the Scheme Providers or fund managers invest in accordance with the prospectus/disclosure document and deed, there is little that the investors can do if they disagree with investment decisions made by the fund manager.

Fees and charges

2.84 The Schemes' fees and charges can be categorised into direct and indirect fees and charges. Direct fees and charges are sales charge, repurchase charge and switching fee whereas indirect fees and charges are annual management fee, annual Trustee fee and other charges that are charged to a Scheme. Other charges include brokerage fees, custody fees, taxes, accounting and valuation fees, audit fees and administrative costs. These charges can have an impact on investors' returns. If two (2) Schemes have the same performance, the Scheme with lower fee will outperform the other.

Opportunity cost

2.85 As with any decision, an investor who invests in the Schemes may have produced better returns by investing directly in the markets. This excess represents the 'opportunity cost' of investing in the Schemes.

2.86 In the case when the Scheme's performance is disappointing, investors can argue that they could have "done better" by investing their funds themselves. While this may be true, one aspect of investment that tends to be forgotten by direct investors is the level of risk taken to achieve those returns. Investment through the Schemes provides a high level of diversification for investors with small capital or limited savings. A single direct investment may produce a higher return compared to that of an investment made through the Schemes, but clearly the risk level accepted by a direct investor is significantly greater than that of investment made through the Scheme.

Investors' awareness of risks

2.87 Similar to any investment, an investor must be aware of the risks of investing in the Schemes.

2.88 Consultants must ensure that investors of the Schemes are given an explanation of these risks before they invest and direct them to read the relevant sections of the Schemes' prospectuses and/or offering documents. Product highlights sheets and other promotional materials issued by the Service Providers can also be useful in explaining to investors the differences in investment risk amongst the Schemes.

Understanding risks and perception of risks

2.89 We face risks every day - for example, whilst driving to work, or catching a serious illness - and we become familiar with and accept these risks as part of a normal life. Yet the risk of an investment falling in value even for a short time somehow assumes a level of anxiety way out of line with the “normal” risks we face.

2.90 A dictionary definition would suggest that risk is “the probability or chance of injury, loss, damage or harm”. For an investor, risk is the chance that the actual return will be less than he or she expects to receive. Risk is, therefore, directly linked to an investor’s objectives. To meet an investor’s objectives, some degree of risk must be taken - if high returns are required, higher risks will need to be taken. It is not possible to achieve high returns without taking on a high level of risk. If the level of risk required to achieve an objective makes an investor uncomfortable, then he or she must reduce the level of expected returns accordingly.

2.91 A long-term investor with limited capital is unlikely to meet his or her objective of financing a child’s education or deriving an amount upon which to retire by investing in a low-risk investment such as fixed income. Ironically, the traditionally low risk fixed income or cash investment would now become a ‘risky’ investment, as it may not help the investor meet his or her retirement or child education objectives.

2.92 Risk can also be defined in terms of the variability or fluctuation in total return from an investment. So, an investment that is volatile in price or value, such as listed shares, are regarded as a higher risk investment than one, such as a fixed deposit, that does not vary in price or value.

2.93 However, an investment that is “risky” to one investor may be much less risky to another. For example, an investor who can hold units in a volatile equity Scheme for the long term can ride out any short-term fluctuations in value, in the expectation that, over the long term, he or she is likely to come out ahead. Conversely, an investor who can hold units in the same equity Scheme for only a few months (before requiring the funds to meet another commitment) is taking a much higher risk. This investor may be better advised to purchase a much less volatile fixed income or cash Scheme.

2.94 “Risk” is not only a complex concept, but it is also personal. Consultants must be aware of a client’s objectives, investment time horizon and attitude toward risk before considering an investment in the Schemes and before an application is made to a particular Scheme. **Diagram 2.7** provides some factors that affect the ability of a client to handle risk.

Diagram 2.7: Factors affecting client's ability to handle risk

2.95 Potential disputes between investors and Consultants can be minimised or avoided if both parties understand the risks that are associated with the Schemes.

Risks of Investing in the Schemes

2.96 The risks of investing in the Schemes include but are not limited to those depicted in **Diagram 2.8**. This is followed by an explanation for these risks.

Diagram 2.8: Risks of investing in the Schemes

Investment risk

2.97 Investment risk is clearly one of the most important risks. As with all forms of investment, there are investment risks associated with investing in the Schemes. For equity funds, the movement of share prices in the stock market is ultimately reflected in the NAV of the fund. Similarly, for those who invest in REITs, they are affected by the property cycle like the owners of real property.

2.98 Of course, share and property prices (both individually and collectively) reflect a host of local and international economic, political and other factors, including investor sentiment.

2.99 Ownership of investments through a Scheme does not, and cannot, reduce the underlying volatility in values of those investments. However, the benefit of diversification across a greater number of individual investments reduces the effect of that volatility for investors with limited capital to invest.

Other risks

2.100 Investors in the Schemes face other types of risk as described below:

Business risk

(a) There is a risk that a Scheme Provider will cease operations, although the effect on investors should be minimised as investments and other assets of the Scheme are held by a Trustee. Nevertheless, there could be some disruption to the day-to-day management of the Schemes. Hence, investors should review the financial health of the Scheme Provider as well.

Liquidity risk

(b) The Schemes, in extreme circumstances, may be unable to meet the demands of investors who wish to sell units - for example, in the event investment markets are in turmoil and closed. In this situation, the liquidity buffer of the Schemes may be used up, and there is no possibility of selling securities from the investment portfolio of the Schemes. While Scheme Providers are required to maintain reasonable liquidity, in extreme circumstances, such as when the market value or fair value of a material portion of the Schemes' assets cannot be determined, the Trustee may suspend the sale and repurchase of units until market conditions improve. Temporary liquidity shortfalls or difficulties in realising assets, on their own, may not justify suspension.

Regulatory risk

(c) There is a risk of changes in legislation (for example, to taxation law) that could affect investors.

Change in management fee

(d) There may be changes to fees associated with the Schemes. If necessary, a meeting of investors of that Schemes will be called at which all the issues can be discussed, and a vote taken. Even then, investors are generally given time to perhaps sell units in the Schemes before any changes are implemented.

Interest rate risk

(e) Investors who borrow to invest in Schemes take on additional risks. This is further discussed in Chapter 7A of this study guide as it applies to investments in UTS only.

2.101 Investors and Consultants must be mindful of all risks associated with the Schemes. As such, it is important to note that risk warnings are included in offering documents, advertisements and promotional materials, such as:

(a) past performance of a Scheme is not a guarantee or an indication of future performance;
(b) past income distributions are not guaranteed and may not be repeated; and
(c) Unit prices and income distributions, if any, may go down as well as up.

2.102 An understanding and appreciation of these risks by Consultants and their clients will help reduce the number of complaints received considerably.

Risks associated with Shariah-Compliant Schemes

2.103 Generally, Shariah-compliant Schemes are exposed to the same kind of risks as the Conventional Schemes. These risks are as outlined in **Diagram 2.9**.

Diagram 2.9: Risks associated with Shariah-compliant Schemes

Note:
**Applicable to UTS only. This is further discussed in Chapter 7A of this study guide.*
***The general interest rate of the country may affect the value of an investment even if the Scheme does not invest in interest bearing instruments. It is a general economic indicator that will have an impact on the management of the Scheme regardless of whether it is a Shariah-compliant Scheme or otherwise*

2.104 In addition to the above, a Shariah-compliant Scheme is also exposed to "Shariah non-compliance risk" or "Shariah specific risk". This type of risk specifically occurs when a Shariah-compliant security is reclassified as a Shariah-non compliant security. This reclassification normally occur when a substantial composition of the income generated is derived from Shariah-non compliant activities. It may also occur when:

(a) a company undertakes a corporate restructuring, such as a merger or acquisition; or

(b) there is a change in business direction, resulting in the company being a non-shariah compliant company.

2.105 This reclassification of the status may affect the performance of the Scheme as the fund manager has to "cleanse" and/or "purify" the fund by disposing all such investments that have been reclassified as Shariah- non compliant securities. In the process of "cleansing" or "purifying", the Scheme may make a lower return or a loss. This would eventually affect the total NAV of a Shariah-compliant Scheme.

The role of Shariah Advisory Council of the SC

2.106 The Shariah Advisory Council of the SC (SAC) has been given the mandate to ensure the implementation of the Islamic Capital Market (ICM) is in compliance with Shariah principles. Its scope is to advise the SC on all matters relating to the development of the ICM and to function as a reference point for all ICM related matters.

2.107 The SAC resolves various issues in relation to the ICM and these resolutions are published periodically to serve as guidance and reference to the public and practitioners in the Islamic finance industry in developing and expanding ICM products.

2.108 The SAC also conducts Shariah compliance review on securities listed as well as for securities to be listed on Bursa Malaysia based on a screening methodology which comprises quantitative and qualitative assessments. The result of this compliance review is published on a six-monthly basis, e.g. in May and November each year. These publications also provide:

(a) The benchmarks applied in determining the Shariah-compliant status for mixed contribution of income in a particular company; and

(b) Disposal treatment of:

  (i) Shariah-compliant securities subsequently reclassified as Shariah-non compliant; and

  (ii) Shariah-non compliant securities (investment).

2.109 Further information relating to the ICM and SAC including the resolutions/decisions and documents issued based on the SAC's scope of work can be found at this link https://www.sc.com.my/development/icm.

2.110 The Shariah Committee of a Scheme is responsible to ensure that all aspects of Shariah-compliant Scheme are consistent with Shariah principles including resolutions of the SAC.

PRACTICE QUESTIONS

Question 1

UTS and PRS share the following main characteristics where both of them:

(i) provide diversification of asset;
(ii) have a Trustee to look after the interest of the investors;
(iii) involve pooling of savings by investors where these savings are invested according to the objective of the Schemes; and
(iv) are Schemes that encourage investors to make long-term savings and investment decisions

(A) (i), (ii) and (iii)
(B) (i), (iii) and (iv)
(C) (ii), (iii) and (iv)
(D) all of the above

Answer: (D)

Question 2

What is the most common fund type in Malaysia?

(A) Money Market Fund
(B) Equity Fund
(C) Fixed Income Fund
(D) Index Fund

Answer: (B)

Question 3

Consultants must ensure that an investor in a Scheme is given

(A) a guarantee on future earnings of the fund
(B) an explanation of risks involved
(C) gifts upon signing up
(D) the right to cancel their investment at any time

Answer: (B)

CHAPTER 3

REGULATORY FRAMEWORK

Learning Objectives

This chapter focuses on the regulatory and supervisory frameworks governing the UTS and PRS industry.

At the end of this chapter, you should be able to understand and describe the:

- Regulatory framework of the UTS and PRS industry and the roles and responsibilities of key regulators;
- Different legislations, regulations and guidelines governing the UTS and PRS industry;
- Key responsibilities of the Scheme Providers and SC's approval requirements;
- Oversight functions of the Schemes;
- Constraints imposed on the investment portfolio of the Schemes;
- Regulation and responsibilities of a Scheme Trustee;
- Regulation of marketing and distribution of the Schemes;
- Registration of Consultants with FIMM; and
- Regulations for other CIS.

Competency Level

1. Core – CC02 Ethics and Integrity (Level 3)
2. Core – CC03 Corporate Governance (Level 3)
3. Foundational (Regulatory)
    i. FOR02 Capital Market Institutions (Level 3)
    ii. FOR03 Capital Market Intermediaries (Level 3)
    iii. FOR04 Capital Market Products Regulations (Level 2)
    iv. FOR05 Islamic Capital Market Regulations (Level 3)
4. Functional Competency (PROCESS) – FUP03 Compliance (Level 2)
5. Functional (Process) – FUP11 Investment Product Management (Level 2)

Overview of the regulatory framework

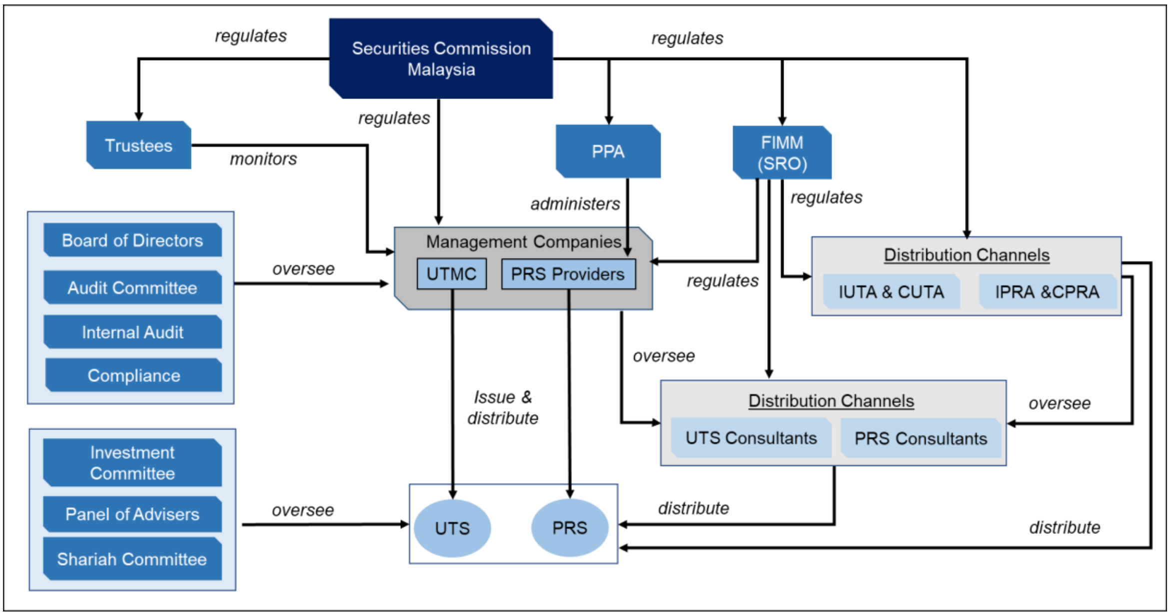
3.01 A sound regulatory framework for the financial system is important. If investors (and other participants) do not have confidence in Malaysia's capital markets and those who play a role within those markets, there will be little, or no investment and the economy will fail to grow in line with government objectives and the expectations of Malaysians generally.

3.02 Major elements of regulation of any financial system include:
(a) protection of investors' interests;
(b) proper disclosure to investors;
(c) control over market participants, including restrictions on those who may be involved in the industry; and
(d) prevention of improper market practices.

3.03 Regulation also commonly includes measures that assist the development of the financial system by setting out the rights, duties and responsibilities of market participants.

3.04 This Chapter provides an overview of the regulatory framework for the UTS and PRS industry. The authorities include the SC, BNM and CCM. Greater emphasis is placed on the SC's regulatory role over the UTS and PRS industry given that the SC is the capital market regulator in Malaysia. This Chapter also covers rules and guidelines issued by FIMM given FIMM's role as an SRO that regulates the marketing and distribution of UTS and PRS. **Diagram 3.1** provides an overall view of the regulatory framework for UTS and PRS in Malaysia.

Diagram 3.1 Regulatory framework for UTS and PRS in Malaysia



Role of the Securities Commission Malaysia over the UTS and PRS industry

3.05 The regulation of the UTS and PRS industry is laid out in the Securities Commission Act, 1993 (SCA) and Capital Markets and Services Act 2007 (CMSA).

3.06 The main objective of regulatory requirements is to ensure proper functioning of the UTS and PRS industry that promotes capital market stability and protects unit holders, PRS members and beneficiaries, via prudential and investor protection requirements.

3.07 For the purpose of regulating the UTS and PRS industry, the SCA and CMSA empower the SC to issue guidelines that includes, amongst others the SC's Guidelines on Unit Trust Funds (UTF Guidelines) and Guidelines on Private Retirement Schemes (PRS Guidelines), which govern the operations and administration of the Schemes.

3.08 The SC's powers are wide-ranging, covering the Management Companies, Schemes, Distributors and Consultants, Scheme Trustees, Employer Trustees and PRS Administrator. The SC may take enforcement action for any contravention of the securities laws, its regulations and guidelines.

3.09 The scope of the SC's regulatory functions includes the following:

(a) registering authority for prospectuses of corporations other than unlisted recreational clubs;
(b) approving authority for corporate bond issues;
(c) regulating all matters relating to securities and futures contracts;
(d) regulating the takeover and mergers of companies;
(e) regulating all matters relating to fund management, including UTS and PRS;
(f) licensing and supervising all licensed persons;
(g) supervising exchanges, clearing houses and central depositories;
(h) encouraging self-regulation; and
(i) ensuring proper conduct of market institutions and licensed person.

Further details on the SC's regulatory functions are available in the SCA.

3.10 The SC's mission statement which is "to promote and maintain fair, efficient, secure and transparent securities and derivatives markets; and facilitate the orderly development of an innovative and competitive capital market" is reflective of the SC's areas of responsibilities that include:

(a) developing the overall capital market and its market segments such as the equity market, bond and sukuk market, Islamic capital market, fund management, derivatives and other market-based platforms and services;
(b) facilitating innovation and digital services through the capital market;
(c) creating avenues for a sustainable financing ecosystem;
(d) ensuring proper conduct of all market participants through our supervisory, surveillance and enforcement work;
(e) championing good corporate governance practices; and
(f) facilitating greater cross-border regulatory co-operation and thought leadership.

3.11 The SC ensures that the investors' interests are protected and has undertaken various initiatives including raising the investors' financial and investment literacy level.

3.12 Consistent with its functions and areas of responsibilities, the SC has been entrusted by the Government to develop the PRS industry as an integral part of the private pension landscape in Malaysia in order to:

(a) provide a well-regulated and supervised PRS industry;
(b) provide choice and flexibility to the Members in their effort to save for retirement;
(c) build trust and confidence in the PRS industry and its framework;
(d) facilitate a cost-effective private pensions framework; and
(e) safeguard the interests of the Members through prudent operational guidelines.

Role of other regulators

3.13 While the SC is the primary regulator, several other regulatory bodies also affect the activities of participants in the UTS and PRS industry. The following paragraphs provide a brief background and functions of these regulators and how their functions affect the UTS and PRS industry.

Companies Commission of Malaysia

3.14 The main activity of the Companies Commission of Malaysia (CCM) is to incorporate companies and register businesses and to provide company and business information to the public. CCM also fulfils its function as the leading authority for the enhancement of corporate governance by ensuring companies and businesses in Malaysia comply with business registration and corporate legislation through comprehensive enforcement and monitoring activities so as to sustain positive developments in the corporate and business sectors in Malaysia.

3.15 Given its role and function, CCM regulates the activities of all companies and businesses within Malaysia including those of Distributors and Scheme Trustees. For this, these entities are required to meet the various requirements imposed under the Companies Act, 1965, as well as other applicable regulations issued by CCM.

Bank Negara Malaysia

3.16 Bank Negara Malaysia (BNM) is a statutory body governed by the Central Bank of Malaysia Act 2009. The role of BNM is to promote monetary and financial stability. This is aimed at providing a conducive environment for the sustainable growth of the Malaysian economy.

3.17 BNM has several important functions, including developing policies and strategies to promote reliable, secure and efficient clearing, settlement and payment systems that are used by all participants in the UTS and PRS industry. BNM is also responsible for the regulation of insurance companies. For this, in the case where

UTMC bundles insurance cover with the sale of a UTS, BNM's requirements relating to the insurance component must be met. As BNM is also overseeing the foreign exchange markets, the applicable BNM's requirements would need to be observed vis-a-vis the overseas investment activities of the Schemes.

Bursa Malaysia

3.18 Some aspects of the UTS and PRS industry are also governed by the exchange, Bursa Malaysia. As an exchange, Bursa Malaysia's roles include facilitating secure and easy access to investments and fundraising and ensuring listed issuers and intermediaries meet their regulatory obligations to uphold investor protection, market integrity and stability. For this, in addition to meeting those requirements imposed on all UTS by the SC, a listed UTS must also meet Bursa Malaysia's Listing Requirements

Federation of Investment Managers Malaysia

3.19 The Federation of Investment Managers Malaysia (FIMM) serves a dual role as both a self-regulatory organisation (SRO) and an industry representative, advocating the development and orderly growth of the UTS and PRS industry. Additionally, FIMM is responsible to upholding the professional standards of Consultants to safeguard the increasingly sophisticated needs and interests of investors as well as maintain public confidence in the industry.

3.20 FIMM carries out its SRO function through the formulation of sound and ethical business practices to promote the interest of the UTS and PRS industry and to provide investor protection. For this, FIMM has developed rules, guidelines and standards that set out the requirements and/or guidance in respect of the various aspects of the Scheme operations and transactions and the activities undertaken by Distributors and Consultants.

3.21 FIMM is the body approved by the SC to conduct UTS and PRS examinations for persons wishing to become Consultants and to register them as authorised Consultants. FIMM encourages best practices in marketing and distribution of Schemes and enhances professionalism among Distributors and Consultants.

3.22 FIMM also works closely with the SC and the industry in the development and growth of the UTS and PRS industry. In carrying out its responsibility as an industry representative, FIMM represents the industry on matters and concerns affecting the industry and embarks on projects to promote industry growth.

Legislations, regulations and relevant guidelines issued by SC

3.23 The SC has issued several laws, regulations and guidelines to regulate and oversee the UTS and PRS industry. The following paragraphs provide brief descriptions on the main objective and content of the laws, regulations and guidelines issued by the SC:

Capital Markets & Services Act 2007 (CMSA)

3.24 The CMSA outlines the regulatory requirements for Scheme Providers, Schemes, Scheme Trustees, Employer Trustees and PRS Administrator. The Private Pension Administrator (PPA) which has been appointed as the approved PRS Administrator is tasked to perform the duties and functions prescribed in the CMSA.

3.25 The SC is empowered as the regulator of UTS under the CMSA. These powers are detailed across various parts of the Act, with Division 5 of Part VI specifically addressing UTS and Prescribed Investment Schemes. Additionally, Part IIIA of the CMSA defines the SC's powers and authority as the regulator of the PRS industry.

3.26 Some of the key requirements that are provided for in the CMSA regarding UTS and/or PRS include:

(a) SC's approval is required for parties to act as a Scheme Provider;
(b) Monies received from unit holders and PRS Members are kept in trust accounts;
(c) A UTMC must register a copy of a prospectus in relation to a UTS with the SC before the date of issue of the prospectus;
(d) Vesting of contributions made by PRS Members as accrued benefits which Members are entitled to;
(e) Preservation of accrued benefits by PRS Providers for its Members;
(f) Contravention of the applicable requirements may be an offence and on conviction may be liable to a fine and/or imprisonment and/or the SC may direct the Scheme Providers to comply with the requirements; and
(g) SC is empowered to issue regulations and guidelines to provide further details for the purpose of supporting the CMSA requirements that tend to be in general terms.

3.27 Section 92A(1) of the CMSA specifies the information that must be provided to a person who invests in a Scheme. This may include information that explains the key characteristics of the capital market product, the nature of obligations assumed by parties dealing in the product, risks associated with the products and details of the essential terms of the product. Failure to observe this requirement could result in a fine not exceeding RM3 million, or imprisonment for a term not exceeding ten (10) years, or both.

PRS Regulations

3.28 Section 139ZI of the CMSA empowers the SC to issue regulations relating to PRS, PRS Administrator, PRS Providers, the Scheme Trustees and the Employer Trustees.

3.29 Key provisions of PRS Regulations which took effect on 19 March 2012 include:

(a) Requirements for the registration, lodgement of deed, disclosure document and Products Highlights Sheet;
(b) Duties and responsibilities of the PRS Provider, Scheme Trustee and Employer Trustee;
(c) Indemnity and replacement of a Scheme Trustee;
(d) The powers of the court in specific instances; and
(e) Requirements relating to maintaining register of Members, rights with regard to deceased Members, meeting of Members and prior approval of the SC for winding up of a Scheme.

Guidelines on Unit Trust Funds and Guidelines on Private Retirement Schemes

3.30 The Guidelines on Unit Trust Funds (UTF Guidelines) and Guidelines on Private Retirement Schemes (PRS Guidelines) are issued by the SC pursuant to Section 377 of the CMSA. These guidelines cover the operational requirements for the Schemes, Scheme Providers and Scheme Trustees. They further clarify in detail, the requirements to be complied with by the Scheme Providers in establishing, offering a Scheme and requirements to be complied with by a Scheme Trustee. They are also aimed at providing a regulatory environment that will protect the security of the investments made by unit holders and savings made by PRS Members within the PRS framework and safeguard the interest of unit holders and PRS Members.

Other applicable guidelines

3.31 A Scheme Provider must be a holder of a Capital Markets Services Licence to carry on fund management activity and must comply with the relevant requirements set out in the SC Licensing Handbook.

3.32 A Scheme may outsource its back-office functions to external parties. In this regard, the Scheme Provider must observe and ensure compliance with the requirements in Chapter 10 (Outsourcing Arrangement by CMSL Holders) in the SC Licensing Handbook.

3.33 The requirements set out in the Guidelines on Compliance Function for Fund Management Companies must also be adhered to by those offering digital investment management services. Chapter 13 of this guideline provides additional requirements relating to a digital investment management company which includes risk management, disclosure to clients, algorithm design and oversight and custodial arrangement.

Regulations issued by FIMM

3.34 Given its role as the SRO for the UTS and PRS industry, FIMM has issued several regulations to govern activities of Consultants and Distributors as follows:

(a) FIMM Consolidated Rules (FCR) – this is a consolidation of guidelines, By-Laws and guidance notes previously issued by FIMM in relation to marketing and distribution of Schemes that are required to be observed by Distributors and Consultants. The FCR sets out the registration requirement for Distributors and Consultants, fit and proper criteria for registration, matters relating to examination and assessment, continuing professional development programme for Consultants and investigation and disciplinary proceedings;

(b) Investment Management Standards (IMS) - a series of standards that cover specific operational issues which must be complied by all Distributors in their operations, unless exemption or variation is given;

(c) Code of Ethics - provides for the ethical standards and professional conduct of Distributors and Consultants;

(d) Registration Manual – sets out the procedures relating to the registration of Distributors and Consultants pursuant to FCR; and

(e) Guidance on Simple Language and Effective Drafting Practices for Prospectus - assists FIMM Members in complying with the Prospectus Guidelines for Collective Investment Schemes issued by the SC.

Additional applicable guidelines for IUTA and IPRA

3.35 In addition to the regulatory requirements imposed by the SC and FIMM, IUTA and IPRA, that are also banks licensed by BNM are required to comply with the following guidelines:

(a) Guidelines on Product Transparency and Disclosure –
This guideline is issued by BNM and it aims to:

(i) promote consumers' awareness and understanding of the financial products and services;

(ii) facilitate consistency in disclosure of essential information on financial products and services to enable comparison;

(iii) minimise mis-selling of financial products and services and ensure that financial products sold, and services provided are appropriate to the needs and resources of the consumer; and

(iv) promote informed decision-making by the consumer.

(b) Guidelines on Investor Protection
This guideline is jointly issued by BNM and SC and aims to ensure, amongst others:

(i) the standard of fit and proper requirements for UTS set out by the SC and FIMM, examination and continuing professional education requirements are complied with;

(ii) maintenance of register on employees undertaking permitted capital market activities and registered employees' securities;

(iii) any complaints from customers are handled consistent with the complaints handling requirements issued by BNM; and

(iv) specified requirements are observed, including, establishment and maintenance of effective systems and procedures to safeguard customer's money, a clear contractual relationship between the customer and the CMSL holder, informing customer of the availability of redress in case of any dispute.

3.36 A list of laws, regulations, and guidelines that govern the UTS and PRS industry is appended at the back of this study guide together with the relevant links for easy reference. Consultants must note that this list is not exhaustive and subject to changes. Consultants are also encouraged to refer to the relevant regulators' website to keep abreast of the development and changes in the capital market including changes made to the regulatory requirements that concern the UTS and PRS industry.

3.37 While most of the rules and guidelines set out in the list mentioned above applies to both UTS and PRS, some of them specifically apply to either UTS or PRS only as illustrated in **Diagram 3.2**.

Diagram 3.2 Guidelines and regulations that are applicable to UTS and PRS

UTS	PRS
Issued by SC • Guidelines on Unit Trust Funds (UTF Guidelines); and • Guidance Notes on Liquidity Risk Management for Fund Management and Unit Trust Management Companies. **Issued by FIMM** • FIMM Guidance on Simple Language and Effective Drafting Practices for Prospectus	**Issued by SC** • Capital Markets and Services (Private Retirement Scheme Industry) Regulations 2012 (PRS Regulations); • Eligibility Requirements for PRS Providers; and • Guidelines on Private Retirement Schemes (PRS Guidelines).

3.38 The SC also issues Technical Notes and Practice Notes where some of them are applicable to the Schemes.

3.39 Major principles of the various regulations, guidelines, requirements and rules are described in various parts of this study guide. Subsequent paragraphs in this chapter focuses on the applicability of the various regulations, guidelines, requirements and rules in the following areas:

(a) Regulation of the Schemes Providers and Schemes;
(b) Regulation of the Scheme Trustee; and
(c) Regulation of marketing and distribution of UTS and PRS.

Regulation of the Scheme Providers

3.40 While the day-to-day functions of Scheme Providers are covered throughout this book; this section outlines the requirements that need to be observed by Scheme Providers from a regulatory perspective. These requirements are predominantly covered under the CMSA, PRS Regulations, UTF Guidelines and PRS Guidelines.

3.41 The following paragraphs briefly set out the key duties and responsibilities of Scheme Providers and other requirements imposed on them:

Key duties and responsibilities of Scheme Providers

3.42 Scheme Providers perform a central function in terms of receiving monies from Investors for investments, processing transactions by investors and managing the funds within the Schemes. The main thrust of the Scheme Providers duties is the proper, diligent and efficacious operation of the Scheme that is undertaken in good faith and in the best interests of the investors.

3.43 In discharging their duties, Scheme Providers are required to, among others:-

(a) Make available the information of relevant documents on the Scheme Provider's website:
   - Offering documents (Prospectus, disclosure document and product highlights sheet);
   - Circulars, notices, fact sheets and announcements;
   - Scheme reports;
   - Latest NAV per unit of the schemes; and
   - Distribution declared, including the composition of distribution (income and capital) in percentage forms.

(b) Make available the deed, financial and other records of a Scheme to Trustee, persons authorised by a Trustee or approved company auditor appointed by a Trustee;

(c) abstain from making improper use of its position in managing the Schemes to gain, directly or indirectly, an advantage for itself or for any other person or to cause detriment to the interests of unit holders and members of such Schemes;

(d) Convene and hold unit holders' or members' meetings for cases where any change to the Scheme may materially affect the interest of the investors;

(e) Receive only fees that are permitted in the deed and disclosed in the prospectus or disclosure document of a Scheme;

(f) Take all reasonable steps to replace a Trustee as soon as practicable under the circumstances spelled out in the CMSA, such as after becoming aware that the Trustee has ceased to exist or, not eligible to be appointed or act as a Trustee;

(g) Keep adequate and maintain records of all information including accounting and other relevant records to enable a complete and accurate view of the Schemes in accordance with the relevant laws or guidelines; and

(h) Avoid any conflicts of interest. Where a conflict cannot be avoided, appropriate safeguards must be put in place to protect the interests of the investors and ensure that the Scheme is not disadvantaged by the transaction concerned.

3.44 In addition to the above, a PRS Provider is also obligated to undertake certain duties and responsibilities in order to enable the PPA to perform its duties and responsibilities which include acting as the central repository of information and data of members of the Schemes as well as to enhance the overall administrative efficiency in the PRS industry. For this purpose, a PRS Provider must:

(a) provide information and comply with reporting requirements, in such manner and frequency as stipulated by the PPA;
(b) notify PPA in a timely manner of any changes made to Schemes or funds under the Scheme or disclosure document;
(c) facilitate the opening of a private pension account including scanning and uploading of the relevant forms and information; and
(d) take all steps to comply with the instructions given by PPA in respect of a member's request made to the PPA to:
    (i) make any pre-retirement withdrawal from any fund under the PRS;
    (ii) transfer monies to another PRS Provider; or
    (iii) ensure in relation to a nomination of any person to receive any payment of accrued benefits of the member, after the death of the member.

Approval of Scheme Providers

3.45 The CMSA requires Schemes to be managed by approved Scheme Providers. The SC may impose certain terms and conditions in approving a Scheme Provider and may revoke its approval at any time in the event of any breach of the said terms and conditions.

3.46 A Scheme Provider is a company that:
(a) establishes a Scheme;
(b) issues, offers for subscription, makes an invitation to subscribe for or purchase units of the Scheme; and
(c) operates and administers the Scheme according to the deed, prospectus/disclosure documents, UTF/PRS Guidelines and other applicable requirements.

Eligibility Criteria

3.47 To minimise the risk of an approved Scheme Provider failing to properly carry out its role and duties, the SC assesses the resources and ability of each Scheme Provider applicant. To be eligible to act as a Scheme Provider, the applicant must:

(a) be an entity incorporated in Malaysia;
(b) have a minimum paid-up capital and shareholders' funds as prescribed by the laws at all times; and
(c) be a holder of a Capital Market Services Licence (CMSL) that meets the requirements set out in the SC Licensing Handbook.

3.48 A Scheme Provider must maintain adequate financial, human and other resources which commensurate with its business including:
(a) adequate human resources with the necessary qualification, expertise and experience to carry on business as a management company;
(b) adequate and appropriate systems, procedures and processes to undertake the business in a proper and efficient manner; and

(c) establish and maintain risk management systems and controls to enable to identify, assess, mitigate, control and monitor risks in relation to the Scheme it operates and manages.

Authorisation of Schemes

3.49 A Scheme Provider needs to undertake the necessary authorisation and registration for its Scheme. These authorisations and registrations include:

(a) Authorisation for the establishment of a new Scheme, including for a company to act as management company of the Scheme and a company to act as Trustee of the Scheme;
(b) Registration of the deed and supplementary deed of the Scheme; and
(c) Registration and lodgement of the UTS prospectus/ PRS disclosure documents.

3.50 Both the deed and prospectus/disclosure document must meet the SC's requirements as a key step in protecting investors. Once the Scheme, deed and prospectus/disclosure documents are registered by the SC, the deed is signed under seal by the Scheme Provider.

3.51 The authorisation of a Scheme may be revoked if:
(a) any information or document furnished in the application is false or misleading or contains a material omission;
(b) the Scheme Provider fails to comply with the directions of the SC or the requirements of the applicable Guidelines; or
(c) it fails to protect the interest of the public or the investors as a whole.

Oversight Functions

3.52 The UTF and PRS Guidelines require oversight functions to be put in place in order to protect investors' interest. In the case of Islamic funds, the Guidelines on Islamic Capital Market Products and Services have also specified oversight functions to ensure Shariah compliance. Persons who undertakes the oversight functions are:
(a) Board of Directors;
(b) An Individual who is independent from the operations and management of the fund;
(c) Committee that may comprise of some Members who are not independent from the functions of the oversight arrangements of the operations and management of the fund, provided that the committee as a whole must be able to undertake its roles and responsibilities effectively.
(d) Compliance Unit;
(e) Internal Audit; and
(f) Audit Committee.

3.53 The salient points pertaining to the oversight functions are stipulated in **Table 3.1.**

Table 3.1 Salient description of oversight functions

	Oversight function	Description
(a)	Board of Directors	▪ Ensure proper policies and procedures are in place to ensure a sound compliance framework. ▪ Independent directors represent and safeguard the interest of unit holders and members.
(b)	Individual and/or Committee	▪ Ensure that the investment strategies selected are properly and efficiently implemented by the Scheme Provider; ▪ Actively monitor, measure and evaluate the fund management performance of the Scheme Provider; ▪ Approve the appointment of a broker or dealer where the dealings in the fund's assets will be effected by the broker or dealer on terms which are the most favorable for the fund ("best execution basis"); and ▪ Approve the policies and procedures governing cross-trades. **<u>Eligibility requirement for an individual</u>** An individual undertaking the oversight function must: ▪ Be independent from the functions where the oversight arrangements are on to enable the individual to undertake its role effectively; and ▪ must not be a Member of the Shariah adviser appointed for the same fund. **<u>Eligibility requirement for a committee</u>** ▪ May comprise of some Members who are not independent from the functions of the oversight arrangements, provided that the committee as a whole must be able to undertake its roles and responsibilities effectively. ▪ Any Members of a committee who carries out the oversight function must not be a Member of the Shariah adviser appointed for the same fund.
(c)	Shariah Adviser	▪ Provide Shariah expertise and advice on

	Oversight function	Description
		Shariah matters in relation to the Shariah-compliant Schemes including matters relating to documentation. ▪ Ensure that a Shariah-compliant Scheme complies with the applicable Shariah rulings, principles and concepts endorsed by the SAC. ▪ Review the Shariah-compliant Scheme's compliance report and investment transaction report to ensure that the Shariah-compliant Scheme's investment is in line with Shariah requirements. ▪ Prepare a report to be included in the fund reports of a Shariah-compliant Scheme stating its opinion whether the Shariah-compliant Scheme has been managed in compliance with Shariah requirements. ▪ Apply ijtihad (intellectual reasoning) to ensure all aspects relating to the Shariah-compliant Scheme are following Shariah requirements.
(d)	Shariah Committee	▪ Must be a composition of at least three individual Shariah advisers to form a Shariah Committee.
(e)	Compliance	▪ Ensure compliance with all requirements. ▪ Responsible for the maintenance of a compliance manual and a code of conduct for the employees of Scheme Providers. ▪ Report directly to the Board of Directors on a regular basis. ▪ Where a Scheme is expressed to be managed and administered in accordance with Shariah principles, the Compliance Officer must have basic knowledge of Shariah laws and principles. ▪ May report to the Compliance Committee where such committee has been established.
(e)	Internal Audit	▪ Report on the adequacy, effectiveness

	Oversight function	Description
		and efficiency of the management, operations, risk management and internal controls.
(g)	Audit Committee	▪ PRS Guidelines require the internal audit function of a PRS Provider to report to an Audit Committee. ▪ Help with the oversight function by reviewing and reporting to the Board of Directors on the internal audit framework and function, and ensure matters highlighted by the audit report are satisfactorily resolved. ▪ Also review the fund reports of each PRS and annual report of a PRS Provider, as well as any related-party transaction and conflict of interest that may arise.

Deed of Schemes

3.54 The CMSA and PRS Regulations require UTS and PRS deed to be registered with the SC and the content of the deed must meet the SC's requirements. Modification made to a deed requires the registration of supplementary deeds accompanied by the appropriate investors' resolution or a statement from the Trustee and Scheme Provider. This is to ensure the modifications protect the interest of Investors.

Minimum contents of the Scheme deed

3.55 Both UTF Guidelines and PRS Guidelines outline the minimum requirements for the content[4] of a deed. Amongst others, the deed must include the following:

(a) Covenants of the Scheme Provider covering the duties of a management company which include ensuring Schemes have a Trustee at all times and operating the fund in accordance with the deed;

(b) Covenants of the Trustee which must cover the duties of a Trustee which include ensuring a fund has a management company at all times and safeguarding the rights and interests of unit holders and PRS members to which the deed relates;

(c) Joint covenants of the management company and Trustee including, but not limited to, safeguarding the interests of the unit holders and PRS members and the registered deed is always in force for the duration of the Scheme; and

(d) Other provisions including, but are not limited to, creation of the Scheme, particulars of the Scheme, particulars on provisions to be made for investments in assets, particulars on remuneration of the management company and Trustee.

[4]Refer to GUTF and GPRS Schedule D for more details on the requirements.

3.56 Both UTF Guidelines and PRS Guidelines state that the contents of the deed must uphold the investors' interest and must be consistent with the securities laws and guidelines issued by the SC.

Prospectus of UTS and Disclosure Document of PRS

3.57 Prospectus and disclosure document are issued by UTMC and PRS Providers respectively. The regulatory requirements state that a person must not issue any securities or make any invitation to invest unless a prospectus or a disclosure document has been registered by the SC and complies with the SC's requirements.

3.58 Both prospectus and disclosure document serve the same purpose to enable unit holders and PRS members to make an informed decision about their investments and contributions. These documents provide relevant and accurate information that is material to understand the management and operation of the respective funds within the Scheme.

3.59 Potential investors must be given a copy (either a hard or soft copy) of the prospectus/disclosure document when they request for subscription to a Scheme. They must be advised to read and understand the prospectus/disclosure document before making the decision to participate in the Scheme.

3.60 The regulatory requirements pertaining to prospectus and disclosure document are stated in the CMSA. Additional requirements for a prospectus are set out in the Prospectus Guidelines for Collective Investment Schemes while the PRS Guidelines and PRS Regulations set out additional requirements for disclosure documents.

3.61 The SC will not register a prospectus or a disclosure document if it does not comply with the applicable regulatory requirements or if, in the SC's opinion, the prospectus or disclosure document contains false or misleading statements or information, or material omissions in any of its statement or information.

3.62 Registration of the prospectus and disclosure document does not mean that the SC recommends investment in the Scheme or takes responsibility for statements in the prospectus and disclosure document. Therefore, a disclaimer to that effect is included in the prospectus.

3.63 The directors of the Scheme Providers remain responsible for the prospectus and disclosure document. A Scheme Provider that issues a prospectus or disclosure document, which does not meet the requirements of the Act, can be fined up to RM3 million or imprisoned for up to ten (10) years or both.

3.64 In determining what information is required to be included in accordance with the relevant regulatory requirements, those responsible for preparing the prospectus and disclosure document should consider the following:

(a) the nature of the Scheme;
(b) the persons likely to consider investing in the Scheme (e.g., the level of knowledge of investment and investment experience of potential investors);

and

(c) the fact that certain matters may be expected to be within the knowledge of professional advisers including Consultants whom potential investors may expect to consult before investing.

3.65 The contents of a prospectus and a disclosure document will be described in Chapter 4 of this Study Guide.

3.66 The issuance of electronic prospectus together with the electronic application forms is guided by Guidelines on Unit Trust Funds of Section 3.26. A management company may use any type of electronic communication to send fund reports, statements and other notices as required under these Guidelines, as long as the management company follow these rules:

(a) Investors are informed about the communication method when they open their account: or
(b) Before using electronic communication as the default method, the management company must mail a notice to all investors, stating that they will automatically receive documents electronically unless they choose to opt out.

Supplementary prospectus and disclosure documents and replacement prospectus and disclosure documents

3.67 In the event that the information in a prospectus or disclosure document becomes false or misleading, for example, because of a change of taxation law affecting investors, the law requires the prospectus or disclosure document to be withdrawn from the market by the Scheme Provider.

3.68 Alternatively, the Scheme Provider may issue a supplementary prospectus/ disclosure document that corrects the original prospectus/disclosure document or provide details of the significant change or information. Scheme Provider may also replace a prospectus/disclosure document previously issued with a replacement prospectus/disclosure document bearing a clear and bold statement stating that it is a replacement prospectus/disclosure document.

3.69 A supplementary prospectus/disclosure document forms part of the original prospectus/disclosure document and Consultants must ensure that every original copy of the prospectus/disclosure document provided to investors contains the supplementary prospectus/disclosure document. Note that there can potentially be several supplementary prospectuses/disclosure documents issued during the life of the original prospectus/disclosure document.

3.70 There will be occasions when an investor applies for units in a Scheme and the Scheme Provider delivers a supplementary or replacement prospectus/disclosure document to be registered with the SC before the units are issued to the investor. As soon as the supplementary or replacement prospectus/disclosure document is registered by the SC, the investor must be notified and given at least 14 days from the date of notice for an opportunity to withdraw his or her application. If the investor decides to withdraw, he or she must receive a refund of the full application amount.

General requirements for a Scheme's Product Highlights Sheet

3.71 A Product Highlights Sheet (PHS) is a document that sets out the salient features of the fund. The PHS therefore, seeks to facilitate an investor's understanding of the product and promote competition by enabling product comparisons to be undertaken by an investor.

3.72 In the context of PHS for UTS and PRS, the key requirements are listed in the Guidelines on Products Highlights Sheet. Additional requirements on PHS for PRS are set out in the PRS Guidelines.

3.73 The SC requires a PHS to be issued in addition to the prospectus/disclosure document that a Scheme Provider issues to investors.

3.74 Information contained in a PHS must be clear, concise and effective to make the PHS a reliable source of information to investors. Furthermore, the information must not be false, misleading or contain any material omission. The PHS should incorporate all the relevant information that investors need to decide on whether to invest in a Scheme.

3.75 The key contents of a PHS for a UTS and PRS are as follows:
(a) Responsibility statement;
(b) Statement of disclaimer;
(c) Brief information on the product, Scheme, funds and Scheme Provider;
(d) Product suitability;
(e) Key product features; and
(f) Key risks and others.

3.76 **Appendix 3.1A** and **Appendix 3.1B** of this chapter provide a guide on the content of a PHS as disclosed in Guidelines on Product Highlights Sheet and PRS Guidelines respectively. These guides can be found at the following links:
(a) https://www.sc.com.my/api/documentms/download.ashx?id=0e79cecd-c0b3-4a7f-b850-b4fe775703bc
(b) https://www.sc.com.my/api/documentms/download.ashx?id=9ae32b79-6031-47b2-80a7-c23b0be61e24

3.77 These guides also provide the Scheme Providers' contact details if investors require further information. In the case where an investor wishes to lodge a complaint, these documents outline the contact details of parties to whom investors can lodge a complaint. The circumstances and parties that investors can make a complaint to are as described below:
(a) For internal dispute resolution, investors may contact the Scheme Provider;
(b) If the investor is dissatisfied with the outcome of the internal dispute resolution process, the investor can refer his/her dispute to FMOS. Further information can be obtained from FMOS's website at https://www.fmos.org.my/en/; and
(c) Even if an investor has initiated a dispute resolution process with FMOS, the investor can also direct his complaint to the SC and FIMM. Further information relating to the SC's and FIMM's complaint process can be obtained from their websites at www.sc.com.my and www.fimm.com.my

3.78 Given that the Guidelines on Product Highlight Sheet that applies to all unlisted capital market products (except those specifically mentioned as not applicable e.g. shares etc.), the Guidelines on Product Highlight Sheet also provide specific information that must be included in the PHS, amongst others:

(a) average total returns over specified periods;
(b) annual total returns over a specified period;
(c) fund's performance vis-à-vis a benchmark;
(d) portfolio turnover ratio;
(e) UTS's gross and net of tax distribution per unit over a specified period and form of payment; and
(f) A warning statement in a specified format that:
    (i) investors should not make cash payments to a UTS Consultant or issue a cheque in the name of a UTS Consultant; and
    (ii) Where applicable, past performance of the fund is not an indication of its future performance.

3.79 The above requirements are also applicable to PRS as set out in the PRS Guidelines. In addition, PRS Guidelines requires a PHS for PRS to include the following items:
(a) the taxation of the fund under a PRS taking into account any distinctive characteristics of the fund;
(b) with regard to members, the tax deduction available and tax liabilities (including tax penalty for withdrawals prior to retirement), if any; and
(c) maximum tax deduction available for employers who contribute on behalf of Employees.

3.80 Both Guidelines on Product Highlight Sheet and PRS Guidelines require Scheme Providers to ensure that investors are informed of their rights to receive a PHS. Investors must also be given reasonable time to read and understand the PHS. The Guidelines on Product Highlight Sheet provides that a PHS, either a hardcopy version or the electronic version, must be provided to the investor before he makes an investment decision. However, a hardcopy must be given to the investor upon request.

Guidance on Drafting Prospectuses, Disclosure Documents and PHS

3.81 Under the SC's Prospectus Guidelines for Collective Investment Schemes and PRS Guidelines, information given to investors must be presented in a manner that can be easily understood to enable them to assess and make an informed investment decision in relation to a Scheme.

3.82 Therefore, the contents of the prospectus/ disclosure document must contain information that is written in a clear and concise manner, with easy-to-understand sentences using plain and simple language. For this purpose, FIMM has issued a Guidance on Simple Language and Effective Drafting Practices for Prospectus to assist in complying with the SC Prospectus Guidelines for Collective Investment Schemes. The guidance note can be accessed through: https://www.fimm.com.my/regulations/guidance-note/.

Requirements Relating to Advertising

3.83 The SC has also issued Guidelines on Advertising for Capital Market Products and Related Services (Advertising Guidelines) which set out the requirements relating to the issuance of advertisements or dissemination of information to promote a capital market product and service, through printed, electronic, digital or any other means.

3.84 These guidelines apply to the following persons who issue or authorise an advertisement or a promotional activity relating to a capital market product or capital market service:

(a) An issuer of a capital market product;
(b) A person carrying out the regulated activity;
(c) A person who provides a capital market service; or
(d) A person who operates or maintains a recognized market.

3.85 Given the UTS Consultant's and PRS Consultant's role in the marketing and distribution of UTS and PRS, the requirements in the SC's Advertising Guidelines apply to them.

3.86 The general principle is that advertisements must provide clear, fair and balanced information regarding the Schemes. Advertisements must not contain any advertising messaging that may mislead investors, such as exaggerated, flamboyant, overstated or over-zealous messaging.

3.87 Salient points of the Advertising Guidelines are covered in Chapter 4 of this Study Guide.

Portfolio Constraints

3.88 Both UTF Guidelines and PRS Guidelines stipulate that the fund's assets must be relevant and consistent with the investment objective of the Schemes. Reasonable steps should be taken to ensure that the fund's assets, after taking into account the investment objective and policy of the funds under the Schemes, provide a prudent spread of risk.

3.89 In addition to the prudential measures described above, those guidelines also include a number of specific constraints relating to the construction and management of the investment portfolio of a Scheme. These constraints, which are designed to reduce the risk of loss for investors in a Scheme, will affect investment decisions relating to:

(a) the establishment of suitable portfolio objectives;
(b) portfolio construction; and
(c) portfolio operation (e.g. when varying the investment portfolio to reflect changes in the number of units in circulation).

3.90 The major constraints on investment portfolios included in the UTF and PRS Guidelines are described in general terms below. The said guidelines should be referred to for specific details.

General Characteristics of UTS and PRS Investments

3.91 UTS and PRS may only invest in the following financial instruments that are consistent with their objectives as stated in the table below:

Table 3.2 Financial instruments in which UTS and PRS are allowed to invest in:

UTS	PRS
▪ transferable securities (include equities, sukuk, bonds or other forms of securitised debt, debt securities and warrants); ▪ cash, deposits and money market instruments; ▪ units/shares in collective investment Schemes; ▪ derivatives; and ▪ Securities other than the above-mentioned, and investment accounts other than cash, deposits and money market instruments are referred to as "other securities"	▪ transferable securities (include equities, sukuk, bonds or other forms of securitised debt, debt securities and warrants); ▪ cash, deposits and money market instruments; ▪ units/shares in collective investment Schemes; ▪ derivatives; ▪ real estate; and ▪ Securities other than the above-mentioned, and investment accounts other than cash, deposits and money market instruments are referred to as "other securities"

3.92 In addition to the above, investments in the Schemes are also required to observe other requirements such as the maximum amount which the Schemes can invest in unlisted securities and restrictions in relation to investment in foreign markets.

3.93 Apart from the SC-imposed constraints on the investment portfolio of a Scheme, Scheme Providers can only invest in securities that are authorised in the deed of the fund. This ensures that all investments are within the broad investment objectives envisaged in the deed. In practice, the prospectus of a UTS and a disclosure document of a PRS may also contain limitations to its investments.

Liquidity

3.94 It is important that a Scheme maintains adequate liquidity so that investors can receive proceeds from the disposal of their units quickly. The SC therefore requires Scheme Providers to maintain arrangements to enable them to meet any repurchase request.

3.95 In determining the level of liquidity, the Scheme Provider should have regard to the repurchase arrangement, expected level of repurchases of units and the investment objectives and policies of the fund. A Scheme can maintain liquidity by holding a portion of its assets in cash, short-dated fixed income or money market instruments or through short-term borrowing. As units in a Scheme are repurchased from investors by the Scheme Provider, the units can be cancelled by the Trustee for cash from the fund, and the investors can be promptly paid.

Securities lending and repurchase transactions

3.96 The Scheme may undertake securities lending and repurchase transactions provided that these are for the sole purpose of efficient portfolio management. A transaction is deemed to be for the purpose of efficient portfolio management if it meets the following criteria:

(a) Economically appropriate and realized in a cost-effective way;
(b) Entered into for one or more of the following aims:
  (i) Reduction of risk;
  (ii) Reduction of cost; or
  (iii) Generation of additional capital or income for the Scheme with a level of risk which is consistent with the risk profile of the Scheme and the diversification requirements as prescribed in the Guidelines;
(c) The exposure is fully covered to meet any obligation to pay or deliver; and
(d) The risks are adequately captured by the risk management policy and procedures of the Scheme.

3.97 The Fund Manager must have at least 100% collateralisation in respect of the securities lending and repurchase transactions into which it enters and ensure that is no uncollateralised counterparty risk exposure arising from these transactions.

Borrowing

3.98 Subject to fulfilling certain conditions, Scheme Providers are allowed to borrow for a period not exceeding one month in order for the fund to meet redemption requests without the need to dispose-off assets in a fund's portfolio, which may otherwise affect the interests of the remaining investors.

3.99 Specialised UTS, for example, wholesale funds that are offered only to institutional investors and other sophisticated investors are allowed to borrow money to make further investments in addition to meeting redemption requests. The leverage or gearing effect is positive if the market value of the portfolio of assets rises. Similarly, losses could be substantial if markets fall sharply.

3.100 Except for repurchase transactions and securities lending, none of the cash or investment of the Scheme Provider may be lent. Further, the Scheme Provider may not assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any other obligation or indebtedness of any person.

Concentration and exposure

3.101 To further reduce risks to Investors, the SC specifies the maximum exposure of a fund portfolio to specific investments for both UTS and PRS funds. In limiting exposure, the portfolio of the Schemes are diversified over a wide spread of investments. The limit can be in the form of exposure to a single issuer, class of securities or group of companies.

3.102 The following examples explain how the exposure limits relate to one another:

Example 1 – Spread of investments

An equity UTS with a NAV of RM10 million normally can hold no more than RM1 million worth of ordinary shares of ABC Berhad (10% of NAV is the maximum holding of share capital of a single issuer) and a further RM0.5 million worth of fixed income securities issued by that company (15% of NAV is the maximum holding of securities issued by a single issuer).

Example 2 – Concentration and spread of investments

Under the concentration exposure limit, a UTS normally cannot hold more than 10% of the ordinary share capital (class of security) of a single issuer. If a company has 10 million ordinary shares in issue, a UTS cannot hold more than 1 million ordinary shares. Of course, the value of such a holding must be less than the exposure limit based on the NAV (10% of the NAV) of the UTS.

3.103 While the SC's exposure limits apply to individual Scheme, a Scheme Provider may manage several Schemes. The SC therefore encourages Scheme Providers to develop internal prudential limits and restrictions that take into account aggregate exposures across all Schemes.

Breach of investment limits

3.104 The Scheme Provider must ensure that the investment limits and restrictions are complied with at all times based on the most up-to-date value of the fund's assets.

3.105 It is the duty of the Scheme Provider to notify the SC within seven business days, of any breach of investment limits and restriction with the steps taken to rectify and prevent such breach from recurring.

3.106 When the fund is in breach of the investment limits, the Scheme Provider need not report to the SC but must be rectified as soon as practicable within three months from the date of the breach unless otherwise specified in the Guidelines.

3.107 However, the three-month period may be extended if it is in the best interests of unit holders and trustee's consent is obtained. Such an extension must be subject to at least a monthly review by the trustee.

Regulation of Scheme Trustee

Key requirements of a Scheme Trustee

3.108 The Trustee plays a very important role in the successful operation of a Scheme. The Trustee of a Scheme must be a trust company registered under the Trust Companies Act, 1949 or incorporated pursuant to the Public Trust Corporation Act, 1995 or Labuan Trusts Act 1996. In the case of a foreign Trustee, the Trustee must be a corporation that is a public company under the Companies Act 2016 or the laws of other countries.

3.109 The Trustee must be registered with the SC in accordance with the requirements set out in the Guidelines on the Registration and Conduct of Capital Market Services Providers (Registration Guidelines). In registering the Trustee, the SC may impose such terms and conditions as it deems fit. The SC has the power to revoke its approval at any time, should there be any breach of the terms and conditions imposed by it.

3.110 The said Registration Guidelines stipulate that only one Trustee may be appointed for each Scheme. In addition, the Trustee must be independent of the Scheme Providers. The following are the criteria that the SC may take into account in considering the application to register a Trustee:

(a) Structure – adequate governance systems with clear lines of accountability, responsibility, authority, and clear segregation of duties to avoid any potential conflict;
(b) Competence – adequate controls, procedures and processes to ensure investors' interest are always protected; and
(c) Resource capabilities – adequate human resources with the necessary qualification, expertise, experience and skills to carry on business as a Trustee.

Related-party Trustee

3.111 While the general rule dictates that a Trustee must be independent of the Scheme Provider and Scheme, the SC does allow for the appointment of related-party Trustees under certain circumstances.

3.112 The Registration Guidelines require related-party Trustees to observe the following requirements:

(a) A registered related-party Trustee is required to appoint an external auditor registered with the Audit Oversight Board to conduct an independent assessment of the Trustee's internal controls, processes and systems, once in every two years;
(b) The registered related-party Trustee must, prior to the commencement of the independent assessment, submit to the SC the scope of the said assessment for approval; and
(c) The assessment report must be submitted to the SC one month prior to the anniversary date.

Role of Trustee

3.113 The Registration Guidelines provide for the general duties of a Trustee which include the following key aspects:
(a) act honestly and in the best interest of the investor;
(b) safeguard the rights and interests of investors;
(c) take all reasonable steps to ensure fair treatment of investors;
(d) avoid gaining an advantage for itself or another person;
(e) avoid causing detriment to investors;

(f) comply with other duty that is outlined in the deed, provided such duty is not contrary with the securities laws and applicable guidelines; and

(g) carry out other duties or responsibilities as may be specified by the SC.

3.114 The following paragraphs describe some of the Trustee's oversight functions over the management of Schemes and the Trustee's continuous obligations that are imposed on a Trustee by the Registration Guidelines.

Custody of the assets of the Scheme

3.115 All assets of a Scheme are held in the Trustee's name for safekeeping. This means that the assets of a fund cannot be sold or transferred by a Scheme Provider without the expressed permission of the Trustee. The Trustee holds the assets of a fund for the investors, and those assets must be separately identified (from the Trustee's own assets and those of other Schemes and Investors) as being assets of the fund. A sub-custodian may be appointed (with the approval of the SC), but the Trustee remains responsible for the actions of the approved sub-custodian.

3.116 The Trustee is responsible for ensuring that a Scheme receives the income (and any other entitlements) from its investment portfolio, and that the net income of the Scheme is appropriately distributed to investors. The Trustee needs to be satisfied that the fees payable to the Scheme Provider from the assets of a fund are reasonable and in accordance with the deed and prospectus.

Investment policies and transactions

3.117 The Trustee must be aware of the investment policies of a Scheme (set by the Scheme Provider), and check that the policies are as described in the fund's prospectus and disclosure document. The Trustee must also be satisfied that the investment policies are sound and in the interests of investors. Once satisfied, the Trustee acquires or disposes of investments in accordance to the instructions of the Scheme Provider. The Scheme Provider should submit daily investment reports to the Trustee.

3.118 The Trustee is also required to ensure that investments are not made to further the interest of the Scheme Provider (or any party related to the UTMC and PRS Provider), or to cause detriment to investors. In other words, there must never be a conflict between the interests of the Scheme Provider and those of investors of the Scheme.

Dealing in units

3.119 The Trustee will create and cancel units in a Scheme (e.g. vary the number of units in circulation) based on the Scheme Provider's requests, and in accordance with the UTF Guidelines and PRS Guidelines. These guidelines specify, for example, that the Scheme Provider must create units only for cash (which must be paid to the Trustee within 7 business days for UTF PRS), and at a price determined in accordance with the deed, UTF and PRS guidelines. The Trustee must also ensure that the investment valuation and unit price calculation process is carried out by the Scheme Provider in accordance with the deed and applicable guidelines.

3.120 The Trustee may refuse to create units or to create units in the number instructed by the Scheme Provider if such creation would result in a breach of the deed, securities laws or the applicable guidelines. Similarly, the Trustee may refuse to cancel units or to cancel units in the number instructed by the Scheme Provider if such cancellation is not in the best interest of investors or if it would result in a breach of the deed, securities laws or the applicable guidelines.

Accounts and audit

3.121 The Trustee of a Scheme must keep, and ensure that the Scheme Provider keeps, accounting and other records that will ensure that the Scheme is properly managed in compliance with the deed, guidelines and laws.

3.122 As a further safeguard to investors, the accounts of a Scheme are required to be audited at the end of each financial year of the fund by an approved auditor. Where the SC is of the opinion that the auditor appointed by the Trustee is not suitable, or where an auditor has not been appointed, the SC may direct the Trustee to replace or appoint an auditor to the fund in accordance with the requirements of the guidelines.

3.123 A Scheme Trustee, may from time to time, if it deems appropriate, remove the auditor of the fund and appoint another in its place. In addition, Unit holders may by way of an ordinary resolution request the Trustee to replace the auditor.

Reports to Investors

3.124 The Scheme Provider is responsible for reporting to investors on the financial condition of the fund by publishing at least two reports (a semi-annual and an annual report) in respect of each financial year of the fund. Reports must be sent out for the period covered within two months of the end of that financial period. The semi-annual and annual report of the fund must include the financial statements of the fund (including any Auditors' report and Shariah adviser's report, where applicable). Financial statements in an annual report must be audited by an approved and independent auditor appointed by the Trustee.

3.125 Also included within the annual report of the Scheme is the report of the Trustee to investors of the fund (called the Trustee's Report). In the Report, the Trustee states whether, in its opinion:

(a) the Scheme Provider has managed the fund in accordance with the limitations on investment powers of the Scheme Provider under the deed, the UTF Guidelines and PRS and other relevant and applicable laws;
(b) the valuation/pricing is carried out in accordance with the deed and any regulatory requirements; and
(c) the creation and cancellation of units are carried out in accordance with the deed and any regulatory requirements.

3.126 If the Trustee is of the opinion that the Scheme Provider has not done so, the Trustee must disclose the shortcomings which may have an impact on the decision of existing or potential investors to remain invested or to invest in the fund. The Trustee must also highlight steps taken to address the shortcomings and to prevent the recurrence of the shortcomings.

Oversight function and reporting to the SC

3.127 The Trustee must report to the SC if it is of the view that the Scheme Provider of a Scheme has not acted in the interest of investors, or in accordance with the deed, or has failed to comply with the deed, the guidelines or the requirements of the SC.

3.128 As such, it is essential that the Trustee maintains policies and procedures that actively monitor the operations and management of the Scheme Provider. This is done through a regular compliance review of the investment limits and processes adopted by the Scheme Provider. The Trustee is required to report on any breaches of procedure. Annual audits performed on the fund's financial statements by an independent auditor appointed by the Trustee lends credibility to the whole oversight function.

Regulation of Marketing and Distribution of UTS and PRS

3.129 Regulating the marketing and distribution process is an important part of the regulation of the UTS and PRS industry in Malaysia. The focus of this section is on the requirements that apply:

(a) to those who wish to become registered Consultants;
(b) to the agency structure of Consultants; and
(c) briefly, at the registration process relating to IUTA/IPRA and CUTA/CPRA.

3.130 Chapter 5 of this study guide covers the controls, by way of the Code of Ethics, that apply to the day-to-day activities of Distributors and Consultants.

3.131 Prior to 1998, a UTS salesperson was only required to meet the internal requirements of a UTMC before being appointed by that UTMC to sell units in its UTS.

3.132 However, given the vital role of salespersons in the UTS industry, it was quickly recognised by the SC and FIMM that such persons should be registered and properly authorised to market and distribute units in UTS. Consequently, a process of registration and examination was developed. Successful candidates were then formally accredited as registered UTS Consultants and entitled to distribute units in UTS managed by UTMC.

3.133 In February 2000, FIMM issued the Guidelines for Registration of Institutional Advisers (IUTA) for the Marketing and Distribution of Unit Trusts to expand the distribution of UTS to include organisations with a large branch network and strong regulatory supervision such as banks and dealers in securities.

3.134 Following the introduction of the Guidelines for Registration of Corporate Unit Trust Advisers (CUTA) for the Marketing and Distribution of Unit Trusts in October 2007, the access to UTS is further expanded to include financial planners licensed by the SC. Subsequently, the Guidelines for Registration of IUTA for the Marketing and Distribution of Unit Trusts have been consolidated with the registration guidelines for CUTA, IPRA and CPRA and referred to as FIMM's Consolidated Rules (FCR).

3.135 Employees of IUTA and CUTA, who meet the requirements to be registered as UTS Consultants, are able to sell units in UTS issued by a UTMC that has entered into a distribution agreement with the IUTA and CUTA.

3.136 All those entering the UTS industry with the intention of marketing and distributing are required to meet minimum educational standards and pass an examination before registration is completed. Only registered persons are allowed to market and distribute UTS.

3.137 With the introduction of the PRS framework, the PRS distribution channels (IPRA and CPRA) have also been regulated to ensure high standards of conduct and the delivery of reasonable advice or basis for recommendations to individuals and corporations.

Categories of Scheme Distributors and Consultants

3.138 All registered Consultants can be categorised according to the category of Distributors registration set out in **Table 3.3**:

Table 3.3 Categories of registered Consultants and Distributors

Category of Distributors	Category of Consultants
(a) UTMC; and (b) PRS Provider	(i) Tied-agent attached to the UTMC/PRS Provider, e.g., an agent appointed by a UTMC/PRS Provider to sell only units in a UTS/PRS managed by that UTMC/PRS Provider (ii) Employee of the UTMC/PRS Provider
(a) IUTA; and (b) IPRA	(i) Tied-agent attached to the IUTA/IPRA that is also UTMC/PRS Provider (ii) Employee or independent individual of the IUTA/IPRA
(a) CUTA; and (b) CPRA	(i) Employee or independent individual of CUTA/CPRA (ii) Generally, individuals licensed by the SC to carry out financial planning activity

Distribution and Collection Points

3.139 Appendix 2-A and 2-B of the FCR provides that Distributors must ensure that a Consultant is stationed at each Distribution Point at all times.

3.140 Employees at 'Collection Points' within the IUTA, IPRA, CUTA and CPRA distribution network need not be registered Consultants, as their role does not involve 'dealing in UTS and 'dealing in PRS' (see below). Unlike a distribution point where the business premise is used for marketing and distribution of Schemes, collection point refers to a business premise that is used to collect relevant documents from Investors.

3.141 Employees at Collection Points must not offer, sell, market and distribute Schemes. Neither are they allowed to prepare and complete an order form for a transaction in a Scheme nor sign as a Consultant.

Agency Structure

3.142 Only Scheme Providers, their authorised distribution channels and the registered Consultants are allowed to market and/or distribute a Scheme.

3.143 As such any eligible person intending to register as a Consultant must make an application through a Distributor who will make the application to FIMM in the format and manner required. The Distributor is responsible for ensuring the eligibility of any applicant and the accuracy and completeness of information and documents furnished by the applicant.

3.144 The SC aims to protect investors by imposing limits on the size and structure of agencies organised by Distributors. These limits are described in the FCR and are designed to ensure that proper supervision is applied to the activities of each agent.

3.145 The standard agency structure (referred to in the FCR as a "Unit") is further elaborated in **Table 3.4**:

Table 3.4 Agency structure requirements for Distributors

Category of Distributors	Requirement under FCR
UTMC / PRS Provider	**Agency units** A Scheme Provider which appoints independent individuals (e.g., non-salaried employees of the Scheme Provider) to deal in units in a Scheme and agency units are formed, the number of tiers in an agency unit must be standardised and not exceed four tiers, comprising— (a) group agency manager; (b) agency manager; (c) agency supervisor; and (d) agent. A Scheme Provider, however, is strongly encouraged to reduce the number of tiers in an agency structure to a minimum in the interest of investors. **Size of Agency Unit** • An agency unit should not exceed 50 persons at all times. • A unit comprises a "supervisor" (defined as the upper three tiers only e.g., either group agency or agency manager or agency supervisor) and his direct downlines. • An agent is not allowed to conduct recruitment.
IUTA/IPRA	**Agency units** 1. A Scheme Provider that is also registered as an IUTA/IPRA may form agency units among its Consultants provided it complies with the requirements on establishment of agency units as stated in the Rules as stated below; • The number of tiers in an agency unit must be standardised and not exceed four tiers, comprising— (a) group agency manager; (b) agency manager;

Category of Distributors	Requirement under FCR
	(c) agency supervisor; and (d) agent. • An agency unit should not exceed 50 persons at all times. • A unit comprises a “supervisor” (defined as the upper three tiers only e.g., either group agency or agency manager or agency supervisor) and his direct downlines. • An agent is not allowed to conduct recruitment. 2. An IUTA/IPRA which is a CMSL holder other than those referred to in the paragraph 1 above may form agency unit among its Consultants, provided it complies with the requirements on establishment of agency units as stated below: **Tiers in Agency Structure** Where independent individuals (e.g. non-salaried employees of the IUTA) are appointed to deal in units of unit trust funds and agency units are formed, the number of tiers in an agency unit must be standardised and not exceed three tiers, comprising– (a) agency manager; (b) agency supervisor; and (c) agent. An IUTA, however, is strongly encouraged to reduce the number of tiers in an agency structure to a minimum in the interest of investors. **Size of Agency Unit** • An agency unit should not exceed 36 persons at all times. • A unit comprises a “supervisor” (defined as the upper two tiers only, e.g. either agency manager or agency supervisor) and his direct downlines. • An agent is not allowed to conduct recruitment.
CUTA / CPRA	A CUTA/CPRA must have a distribution arrangement or a sub-distribution arrangement which enables it to market and distribute Schemes of at least 2 issuers including an operator at all times. CUTAs/CPRAs are not allowed to enter into sub-distribution arrangement with IUTAs who are financial institutions specified as “registered persons” under Item (1)(g) Part 1 of Schedule 4 of the CMSA.

Category of Distributors	Requirement under FCR
	Agency units A CUTA/CPRA may form agency units among its Consultants provided it complies with the requirements on the establishment of agency units as stated below: **Tiers in Agency Structure** Where independent individuals (e.g., non-salaried employees of the CUTA/CPRA) are appointed to deal in units Schemes and agency units are formed, the number of tiers in an agency unit must be standardised and not exceed three tiers, comprising– (a) agency manager; (b) agency supervisor; and (c) agent. A CUTA, however, is strongly encouraged to reduce the number of tiers in an agency structure to a minimum in the interest of investors. **Size of Agency Unit** • An agency unit should not exceed 36 persons at all times. • A unit comprises a “supervisor” (defined as the upper two tiers only, e.g., either agency manager or agency supervisor) and his direct downlines. • An agent is not allowed to conduct recruitment.

The Need to Regulate Consultants

3.146 All persons involved in the marketing and distribution of UTS and PRS are ‘dealing in unit trusts’ and ‘dealing in PRS’ respectively.

3.147 The UTS and PRS Distributors must be licensed for the regulated activity of dealing in UTS and PRS under Schedule 2 of the CMSA or fall within the types of registered persons under Schedule 4 of the CMSA. These Distributors are represented by Consultants who must be registered with FIMM.

3.148 The underlying principle is to ensure all Consultants obtain a minimum standard of knowledge of the industry to meet potential investors. Consultants are often the first point of contact for investors. In the case of PRS Consultants, they also meet with employers.

3.149 Consultants owe a duty of care to the investors and potential investors. They are expected to:

(a) act with honesty, integrity and dignity and conduct themselves in a professional and ethical manner;

(b) treat members with respect and disclose all pertinent information for investors to make informed investment decisions; and

(c) not misrepresent the Scheme, funds or past performances of the funds in marketing the Scheme.

3.150 A Consultant must show proof of his registration with FIMM to investors in the manner specified by FIMM when carrying out the marketing and distribution of Schemes.

3.151 As part of the Consultants and Distributors duty to act honestly, fairly and professionally, they must undertake a suitability assessment before recommending an unlisted capital market product to an investor. Requirements relating to suitability assessment are further elaborated in Chapter 4 of this study guide.

Eligibility Requirement for Registration as Consultants

3.152 Persons who wish to register as Consultants who market and distribute a Scheme must comply with the relevant requirements set out in the FCR.

3.153 Such persons must:

(a) be at least 21 years of age;
(b) have attained credits in any three (3) subjects in SPM or its equivalent; and
(c) has passed the FIMM Examination conducted by the FIMM (unless exempted under the FCR which details are as set out in item (ii) of Appendix 1-A and 1-B of the FCR).

3.154 In addition, the persons must also meet the following fit and proper criteria:

(a) honesty integrity and reputation;
(b) competence and capability; and
(c) financial soundness and solvency.

3.155 Chapter 4 of FIMM's Consolidated Rules provides further details on the factors that may be taken into consideration in assessing whether Consultants meet the fit and proper requirement. These factors include the following:

(a) Honesty, integrity and reputation
   (i) has not been refused the right or restricted in his right to carry on any trade or profession for which a specific registration or other authorization is required, whether in Malaysia or elsewhere; and
   (ii) has not been censured, reprimanded, disciplined suspended or refused membership or registration by FIMM, SC, or any other authorities or bodies, whether in Malaysia or elsewhere.

(b) Competence and capability
   (i) has satisfactory record of past performance or expertise, having regard to the nature of the business which the person intends to carry on in connection with the registration with FIMM; and
   (ii) has the knowledge, skills and experience to understand, operate and

manage the regulated activities in connection with the registration with FIMM.

(c) Financial soundness and solvency
   (i) is or has been subject to an execution in respect of a judgement debt which is unsatisfied, either in whole or in part, whether in Malaysia or elsewhere; and
   (ii) has entered into a compromise or scheme of arrangement with his creditors or made an assignment for the benefit of his creditors, being a compromise or scheme of arrangement or assignment that is still in operation, whether in Malaysia or elsewhere.

3.156 An applicant applying for registration as a Consultant must submit to the intended Principal a statutory declaration in the manner prescribed by FIMM. A person who is registered by FIMM as a Distributor or Consultant under the FCR is required to continuously satisfy the fit and proper criteria upon registration. Failure to satisfy any of the fit and proper criteria constitutes a non-compliance to the rules and FIMM may suspend or revoke such registration or take such other action as it deems fit.

3.157 A Distributor is responsible for monitoring its Consultants' continuous compliance with the fit and proper criteria and must immediately notify FIMM in the event the Distributor discovers that its Consultant is no longer fit and proper.

3.158 Distributors must also ensure that their Consultants observe the following:

(a) A Consultant must only represent one Principal;
(b) A Consultant must only deal in the Schemes of his Principal or those distributed by his Principal and cannot make arrangements to distribute a Scheme of other Scheme Providers or those distributed by other Distributors;
(c) A UTS Consultant of a UTMC and PRS Consultant of a PRS Provider or an IUTA and IPRA who holds a CMSRL to carry out the regulated activity of financial planning as defined in the CMSA and intends to represent a CUTA or CPRA must duly terminate his registration as the UTS Consultants of the UTMC and PRS Consultant of the PRS Provider before applying to register as a UTS Consultant of the CUTA and PRS Consultant of the CPRA;
(d) IUTA and IPRA must ensure that only their full-time employees may register as Consultants. This restriction does not apply where the IUTA and IPRA is a UTMC, a holder of CMSL license, a licensed insurance company or a registered takaful operator; and
(e) CUTA and CPRA must ensure that only their full-time employees who hold a CMSRL for regulated activity of financial planning or those who fulfilled FIMM's exemption criteria may register as Consultants.

Duration of Registration of Consultants

3.159 The registration of a Consultant will lapse on the 31st December of each calendar year of the registration unless an application for renewal is made by the said Consultant in accordance with FIMM Registration Manual. Nonetheless, FIMM may suspend or revoke the registration of a Consultant at any time in accordance with the provisions set out in the FCR.

Variation to Registration of Consultants

3.160 A Consultant must seek FIMM's approval to vary his registration in the following circumstances:

a) When the Consultant varies his relationship with his Principal from being an employee to an agent or vice versa; and
b) When the Consultant changes Principal.

3.161 Any former Consultant who has left the UTS or PRS industry for more than three years must sit for the UTS or PRS examination if he intends to reregister as a UTS Consultant or PRS Consultant.

Deregistration or Termination of Consultants

3.162 In the event a Consultant resigns from his Principal, the Consultant is required to notify his Principal. Meanwhile, in the event a Principal terminates its Consultant, the Principal is required to notify its Consultants accordingly.

3.163 The Principal must also notify the resignation or termination of Consultants through the FIMM registration system.

Suspension and revocation of registration

3.164 The FIMM may suspend or revoke the registration of a Consultant at any time on any of the following grounds:

(a) the Consultant fails to meet any of the eligibility requirement;
(b) the relevant CMSRL of the Consultant is suspended or revoked by the SC;
(c) the Consultant fails to comply with the relevant rules, guidelines, by-laws, codes, directive or standards issued by the FIMM, regulations or guidelines issued by the SC, securities laws or such other applicable laws;
(d) the SC issues a directive to the FIMM to suspend or revoke the registration of the Consultant; or
(e) any information or declaration in any statutory declaration provided by the Consultant for purposes of his registration with the FIMM is found to be false, in part or as a whole.

3.165 In addition, the registration of a Consultant may be suspended or revoked in the event that–

(a) the registration of his Principal is revoked;
(b) the registration of his Principal is suspended; or
(c) his Principal ceases operations.

Regulations for Other CIS

Real Estate Investment Trusts (REITS)

3.166 Given the nature of real estate as an asset class for UTS, there are specific requirements relating to the operation of REIT. The REIT Guidelines require the following:

Listed REIT
(a) May only invest in real estate, non-real estate assets and; cash, deposits and money market instrument; and
(b) At least 75% of a REIT's total asset value must be invested in real estate, that generates recurrent rental income at all times;

Unlisted REIT
(a) May only invest in real estate, single-purpose companies, real estate-related assets and cash, deposits and money market instruments;
(b) At least 50% of a fund's total asset value must be invested in real estate and/or a single-purpose companies at all times; and
(c) A fund's investment in non-real estate-related assets and/or cash, deposits and money market instruments must not exceed 25% of a fund's total asset value.

3.167 The SC requirements also cover the asset quality and valuation of real estate being purchased for the REIT, including its disposal, since there may be links between the promoter of a REIT and the seller of the real estate purchased on behalf of the REIT. All valuations of real estate must strictly comply with the SC's Guidelines on Asset Valuation.

3.168 There are several major differences between the requirements relating to REIT and other types of UTS, largely reflecting the difference in the investment portfolios as follows:

(a) Valuation of real estate held by a REIT is different compared to the valuation for equities listed on Bursa Malaysia. The REIT Guidelines provide details of how valuations of real estate must be carried out and require that the same approved valuer cannot do more than two consecutive valuations of any particular real estate. The Trustee shall cause a revaluation of any parcel of real estate directly held by the trust, or indirectly held via the holding of the equity of a single-purpose company, to be carried out at least once in every three years from the last valuation date;

(b) While a listed REIT is not required to repurchase units from unit holders (investors may instead sell their units through Bursa Malaysia), an unlisted REIT will normally be expected to repurchase units from Investors within 30 days from the date of receipt of the repurchase request. If the Trustee believes that cancellation of units is not in the interests of unit holders, e.g., where the real estate assets of the REIT cannot be sold at an appropriate price or on adequate terms, the Trustee may, with approval of the SC, suspend the repurchase covenant (obligation) under the deed. The Trustee of the REIT must then call a meeting of unit holders to consider the future of the REIT;

(c) The initial minimum size of a REIT must be RM100 million, although this may be increased for subsequent launch of the REIT. Borrowings may be used to acquire real estate and single-purpose companies (for both listed and unlisted REIT) and to redeem units (for unlisted REIT). However, total borrowings must not exceed 50% of the total asset value of the REIT at the time the borrowings are incurred; and

(d) The UTMC of a REIT may pledge the assets of the REIT to secure the borrowings up to the level permitted above. Prior approval of the Trustee and SC must be obtained to go beyond the level of borrowings permitted.

Exchange Traded Funds (ETF)

3.169 ETF's assets may only consist of transferable securities, units or shares in CIS, derivatives; and deposits and money market instruments.

3.170 The weightings of the constituents of the ETF's assets may be based on the following strategies:

(a) Full replication by investing all or substantially all of its assets in the entire constituents of the index;
(b) Representative sampling of the constituents of the index; or
(c) Synthetic replication of the constituents of the index,

which the ETF is tracking.

3.171 As a listed index-tracking fund with primary objective to achieve the same return as a particular market index by investing all or substantially all of its assets in the constituent securities of the index, the ETF Guidelines require the underlying index that is tracked by an ETF to fulfil the following requirements:

(a) Have a clearly defined objective;
(b) Appropriately reflect the characteristics of the market or sector;
(c) Be diversified such that the maximum weight per constituent does not exceed 20% of the index;
(d) Where an index is composed solely of constituents which are non-shares, the maximum weightage of only one constituent may be increased to but not exceeding 35% of the index;
(e) Broadly based;
(f) Sufficiently liquid; and
(g) Transparent and conveniently accessible by investors.

3.172 Additionally, the Guidelines also impose some investment restrictions that include, among others:

(a) Investments in securities that are not traded in an eligible market must not exceed 10% of the fund's NAV;

(b) Investments in money market instruments, equities securities, debit securities issued by any single issuer must not exceed 15% of the fund's NAV;

(c) Placement in deposits with any single financial institution must not exceed 20% of the fund's NAV;

(d) The fund can participate in futures contracts that are sufficiently liquid, transacted on an exchange where the clearing house performs a central counterparty role, have trades which are characterised by a daily marked-to-market valuation of the contract's position and subject to at least daily margining; and is settled in cash;

3.173 Depending on the nature of funds and investment objective, the SC may consider a variation of limits and restrictions upon an application from a UTMC.

Appendix 3.1A – UTS Product Highlights Sheet Guide

Date of Issuance:
RESPONSIBILITY STATEMENT
This Product Highlights Sheet has been reviewed and approved by the directors and/or authorized committee and/or persons approved by the Board of (name of Product Issuer) and they have collectively and individually accept full responsibility for the accuracy of the information. Having made all reasonable inquiries, they confirm to the best of their knowledge and belief, that there are no false or misleading statements or omissions of other facts which would make any statement in the Product Highlights Sheet false or misleading.
STATEMENT OF DISCLAIMER
Choose the Sample that is relevant to your Unlisted Capital Market Product** **Sample 1 – For products that require Authorisation/Recognition of the Securities Commission Malaysia The Securities Commission Malaysia has authorised/recognised the issuance of (name of unlisted capital market product) and a copy of this Product Highlights Sheet has been lodged with the Securities Commission Malaysia. The authorisation of the (name of unlisted capital market product) and lodgement of this Product Highlights Sheet, should not be taken to indicate that the Securities Commission Malaysia recommends the (name of unlisted capital market product) or assumes responsibility for the correctness of any statement made or opinion or report expressed in this Product Highlights Sheet The Securities Commission Malaysia is not liable for any non-disclosure on the part of the (name of Product Issuer) responsible for the (name of unlisted capital market product) and takes no responsibility for the contents of this Product Highlights Sheet. The Securities Commission Malaysia makes no representation on the accuracy or completeness of this Product Highlights Sheet, and expressly disclaims any liability whatsoever arising from, or in reliance upon, the whole or any part of its contents. **Sample 2 – For products under the Lodge and Launch Framework*** The relevant information and document in relation to the (name of unlisted capital market product), including a copy of this Product Highlights Sheet has been lodged with the Securities Commission Malaysia under the Lodge and Launch Framework. The lodgement of the relevant information and document in relation to the (name of unlisted capital market product), including this Product Highlights Sheet, should not be taken to indicate that the Securities Commission Malaysia recommends the (name of unlisted capital market product) or assumes responsibility for the correctness of any statement made or opinion or report expressed in this Product Highlights Sheet. The Securities Commission Malaysia is not liable for any non-disclosure on the part of the (name of Product Issuer) responsible for the (name of unlisted capital market product) and takes no responsibility for the contents of this Product Highlights Sheet. The Securities Commission Malaysia makes no representation on the accuracy or completeness of this Product Highlights Sheet, and expressly disclaims any liability whatsoever arising from, or in reliance upon, the whole or any part of its contents.

NOTE: This template serves only as a GUIDE. The presentation, style, content and type of information below should be amended according to the types of unlisted capital market products offered. Notwithstanding that, the information required on paragraph 3.06 must be included in the PHS according to the types of unlisted capital market products offered.

This Product Highlights Sheet only highlights the key features and risks of this unlisted capital market product. Investors are advised to request, read and understand the disclosure documents before deciding to invest.

PRODUCT HIGHLIGHTS SHEET

PRODUCT NAME

BRIEF INFORMATION OF THE PRODUCT

1. What is this product about?

Brief description of the product could include the following information:

- *Type of product*
- *Name of issuer*
- *Callable by issuer (Yes/No)*
- *Capital protected or guaranteed (Yes/No)*

PRODUCT SUITABILITY

2. Who is this product suitable for?

Briefly state the types of investors this product is suitable for. Information provided could include:

- *Return objectives e.g. income/capital growth/capital preservation*
- *Whether their principal investment will be at risk*
- *How long they are prepared to hold their investment for*
- *Any other key information peculiar to the product which would help investors to determine if the product is suitable for them*

KEY PRODUCT FEATURES
3. What am I investing in? • *Issuance date* • *Issuance price* • *Issue size* • *Maturity date* • *Tenor of issue* • *Issuance at par/premium/discount* • *Profit/coupon/rental rate* • *Rating and rating agency]* • *Buyback frequency* • *Maximum loss/gain (in % terms)* • *Representations and warranties* • *Selling restriction/tradability* • *Details of proceeds utilization* • *Underlying assets* • *Investment strategy and policy to achieve the investment objective, e.g. investment focus (types of assets, allocation, country, market/sector/industry), techniques/approach used in managing the portfolio* • *Whether product will employ derivatives strategy or investment in structured products*

To describe these features with relevant tables, diagrams or illustrations where applicable

4. Who am I investing with?

- *[State the names of all relevant parties involved in the structure of the product, e.g. issuer, originator, servicer, counterparty, guarantor, trustee, custodian, underwriter, principal advisor, Shariah advisor, reporting accountant etc.*

- *State any conflict of interest, if applicable]*

5. What are the possible outcomes of my investment?

[To describe possible gains/losses in best and worst case scenario and any other possible scenarios]

KEY RISKS
6. What are the key risks associated with this product? • *[State key risks that would commonly occur, or which may cause significant losses if they occur, or both. Risks peculiar to the product should also be stated. Give appropriate formatting emphasis where investors might lose all of their initial investment]* • *For unit trust fund, a unit trust consultant (UTC) may represent a company that distributes unit trust fund that uses a nominee system and the rights as a unit holder may be limited if an investor invest in unit trust funds through it. If the company that distributes unit trust fund uses a nominee system, to state if rights as a unit holder will be limited in any way.*
FEES AND CHARGES
7. What are the fees and charges involved? • *All relevant fees and charges payable (i.e. management fees, distribution fees, redemption fees and switching fees and any other substantial fees of more than 0.08% of NAV or subscription value)* • *Indicate if fees payable once-off or per-annum basis* • *If fees may be increased later, please state so.* • *To state if charges are negotiable.* • *For unit trust fund or private retirement scheme, if an investor redeems units in a unit trust fund and then purchase units in another, the investor will probably have to pay a sales charge. However, if an investor switches from one fund to another managed by the same unit trust management company or private retirement scheme provider, it is likely that such investor may not have to pay any sales charge. To clearly state the policy on switching and redemption, and relevant fees, if any.* **8. How often are valuations available?** • *How often and where valuations are published (i.e. web address/ newspapers where valuations are published)* **9. How can I exit from this investment and what are the risks and costs involved?** • *Explain how investor can exit investment within initial offer period* • *If investor cancels investment after initial offer period has lapsed, describe how investor can exit investment*

CONTACT INFORMATION

10. Who should I contact for further information of to lodge a complaint?

- *Contact details of issuers/distributors investors may contact if they have enquiries:*
- *Website address and email address*

1. *For internal dispute resolution, you may contact:*
   (Contact details for the product distributor's internal dispute resolution)

2. *If you are dissatisfied with the outcome of the Financial Service Provider (FSP) refer your dispute to the Financial Markets Ombudsman Service (FMOS):*

   via email : https://www.fmos.org.my/en/feedback.html
   via post : Chief Executive Officer
   Financial Markets Ombudsman Services [Reg. No: 20040010125885]
   14th Floor, Main Block
   Menara Takaful Malaysia
   No 4, Jalan Sultan Sulaiman
   50000 Kuala Lumpur
   In person : As above address.

3. *You can also direct your complaint to the SC event if you have initiated a dispute resolution process with FMOS. To make a complaint, please contact the SC's Consumer & Investor Office:*

   via phone to the Aduan Hotline at : 03-6204 8999
   via fax : 03-6204 8991
   via email to : aduan@seccom.com.my
   via online complaint form available at www.sc.com.my
   via letter : Consumer & Investor Office
   Securities Commission
   3 Persiaran Bukit Kiara
   Bukit Kiara

4. *Federation of Investment Managers Malaysia (FIMM)'s Complaints Bureau:*

   via phone : 03-7890 4242
   Via email to : complaints@fimm.com.my
   Via online complaint form available at: Lodge A Complaint - FIMM
   Via letter to : Legal and Regulatory Affairs
   Federation of Investment Managers Malaysia
   19-06-1, 6th Floor
   Wisma Capital A
   No. 19, Lorong Dungun
   Damansara Heights
   50490 Kuala Lumpur

Appendix 3.1B – PRS Product Highlight Sheet Guide

NOTE: This template serves only as a GUIDE. The presentation, style, contents and type of information below should be amended according to the types of funds offered. Notwithstanding that, the information required on paragraph (3) of Schedule I of these Guidelines must be included in the Product Highlights Sheet according to the types of funds offered.

<<Date of issuance>>

PRODUCT HIGHLIGHTS SHEET

<<name of Private Retirement Scheme and relevant Fund(s)>>

RESPONSIBILITY STATEMENT

This Product Highlights Sheet has been reviewed and approved by the directors or authorised committee and/or persons approved by the Board of *<<name of Private Retirement Scheme Provider>>* and they have collectively and individually accept full responsibility for the accuracy of the information. Having made all reasonable inquiries, they confirm to the best of their knowledge and belief, that there are no false or misleading statements, or omission of other facts which would make any statement in the Product Highlights Sheet false or misleading.

STATEMENT OF DISCLAIMER

<<name of Private Retirement Scheme>> and authorised the *<<relevant fund name(s)>>*, and a copy of this Product Highlights Sheet has been lodged with the Securities Commission Malaysia. The approval and authorisation, as well as the lodgement of this Product Highlights Sheet, should not be taken to indicate that the Securities Commission Malaysia recommends the *<<name of Private Retirement Scheme>>* or *<<relevant fund name(s)>>*, or assumes responsibility for the correctness of any statement made or opinion or report expressed in this Product Highlights Sheet.

The Securities Commission Malaysia is not liable for any non-disclosure on the part of *<<name of Private Retirement Scheme Provider>>*, responsible for the *<<name of Private Retirement Scheme>>* and *<<relevant fund name(s)>>*, and takes no responsibility for the contents of this Product Highlights Sheet. The Securities Commission Malaysia makes no representation on the accuracy or completeness of this Product Highlights Sheet, and expressly disclaims any liability whatsoever arising from, or in reliance upon, the whole or any part of its contents.

- This Product Highlights Sheet only highlights the key features and risks of this *<<name of Private Retirement Scheme>>* and *<<relevant fund name(s)>>*. Investors are advised to request, read and understand the disclosure documents before deciding to invest.

NAME OF THE SCHEME AND RELEVANT FUND(S)

BRIEF INFORMATION

What is the *<<name of Private Retirement Scheme and Fund(s)>>*?

Brief description of the following:

- *Name of Scheme*
- *<<For multi-fund's PHS>> What are the Core Funds under the Scheme?*
- *<<For single-fund's PHS>> What is the <<name of non-Core Fund>>?*
- *Name of PRS Provider*

PRODUCT SUITABILITY

Who is the fund suitable for?

Briefly state the types of investors this fund is suitable for. Information provided could include:

- *Return objectives- building savings for retirement e.g. income/capital growth/capital preservation*
- *Whether their principal investment will be at risk*
- *Any other key information peculiar to the fund which would help investors to determine if the fund is suitable for them*

KEY PRODUCT FEATURES

What am I investing in?

• *Fund Category/Type* • *Issuance date* • *Issuance price* • *Issue size* • *Benchmark* • *Financial year end* • *Distribution policy*	• *Minimum initial and subsequent contribution amount* • *Investment strategy and policy to achieve the investment objective, e.g. investment focus (types of asset, allocation, country, market/sector/industry), techniques/approach used in managing the portfolio* • *Whether product will employ derivatives strategy or investment in structured products*

To describe these features with relevant tables, diagrams or illustrations where applicable

Who am I investing with?

- *[State the names of all relevant parties involved in the structure of the Private Retirement Scheme, e.g PRS Provider, Scheme Trustee, Shariah advisor etc.*
- *State any conflict of interest, if applicable]*

How does the Scheme work?

<<Brief description. To include circumstances where no selection is made by the members i.e. explain Default Option. A table should be used to set out the age groups for the Default Option. To highlight that the current retirement age is 55 years and that it may change to any other compulsory age of retirement from employment as may be specified under any written law>>

<< To include a statement on when the cooling-off right may be exercised>>

<< To describe how the contributions will be split into sub-accounts A and B. To describe how/when withdrawals can be effected from each sub-account. Note: tax penalty of 8% should be clearly stated>>

<<To include a statement on when and how frequently a member may:
(i) switch between PRS funds managed by the PRS Provider
(ii) transfer his/her accrued benefits to another PRS Provider >>

<< To include a statement that if you switch from one fund to another managed by the same PRS Provider, it is likely that you may not have to pay any sales charge. Ask about switching before you redeem>>

KEY RISKS

What are the key risks associated with this fund?

[State key risks that would commonly occur, or which may cause significant losses if they occur, or both. Risks peculiar to the fund should also be stated. Give appropriate formatting emphasis where investors might lose all of their initial investment]

What are the fees and charges involved?

- *All relevant fees and charges payable (i.e. application fee, management fees, distribution fees, trustee fee, withdrawal fees, transfer fee and switching fees and any other substantial fees of more than 0.08% of NAV or subscription value)*
- *Indicate if fees payable once-off or per-annum basis*
- *If fees may be increased later, please state so.*
- *To state if charges are negotiable.*
- *If an investor redeems units in a fund and then purchase units in another, the investor will probably have to pay a sales charge. However, if an investor switches from one fund to another managed by the private retirement scheme provider, it is likely that such investor may not have to pay any sales charge. To clearly state the policy on switching and redemption, and relevant fees, if any.*
- *All relevant fees and charges charged by the PPA (PPA).*

You can also compare the fees and charges of other private retirement schemes by visiting the PPA's website, www.ppa.my

How often are valuations available?

- *How often and where valuations are published (i.e. web address/ newspapers where valuations are published)*

Pre-retirement and retirement withdrawal

Brief description of the circumstance for pre-retirement withdrawal and withdrawal at retirement age

What taxes apply?
<< To include explanation: (i) of how the RM3,000 tax deduction applies to an individual; (ii) on the maximum 19% tax deduction for employers; (iii) that withdrawals prior to retirement from sub-account B will be subject to the 8% tax penalty; (iv) that after reaching the retirement age, death , or permanent departure from Malaysia, permanent total disability, serious disease or mental disability, withdrawals will not be subject to any tax.>>

Who should I contact for further information or to lodge a complaint?

- *Contact details of PRS/distributors investors may contact if they have enquiries:*
- *Website address and email address*

1. *For internal dispute resolution, you may contact:*
(Contact details for the PRS Provider distributor's internal dispute resolution)

2. *If you are dissatisfied with the outcome of the Financial Service Provider (FSP) refer your dispute to the Financial Markets Ombudsman Service (FMOS):*

via email : https://www.fmos.org.my/en/feedback.html
via post : Chief Executive Officer
Financial Markets Ombudsman Services [Reg. No: 20040010125885]
14th Floor, Main Block
Menara Takaful Malaysia
No 4, Jalan Sultan Sulaiman
50000 Kuala Lumpur
In person : As above address.

3. *You can also direct your complaint to the SC event if you have initiated a dispute resolution process with FMOS. To make a complaint, please contact the SC's Consumer & Investor Office:*

via phone to the Aduan Hotline at : 03-6204 8999
via fax : 03-6204 8991
via email to : aduan@seccom.com.my
via online complaint form available at www.sc.com.my
via letter : Consumer & Investor Office
Securities Commission
3 Persiaran Bukit Kiara
Bukit Kiara

4. *Federation of Investment Managers Malaysia (FIMM)'s Complaints Bureau:*

via phone : 03-7890 4242
Via email to : complaints@fimm.com.my
Via online complaint form available at: Lodge A Complaint - FIMM
Via letter to : Legal and Regulatory Affairs
Federation of Investment Managers Malaysia
19-06-1, 6th Floor
Wisma Capital A
No. 19, Lorong Dungun
Damansara Heights
50490 Kuala Lumpur

PRACTICE QUESTIONS

Question 1

The followings are the duties of the PPA, except

(A) undertake general promotion and awareness of the Scheme

(B) act as a resource centre for data and research for the PRS industry

(C) monitor fees charged and performance offered by the different PRS Providers

(D) appoint the Scheme Trustee for each Scheme

Answer: (D)

Question 2

Which of the followings require the approval from the Securities Commission Malaysia?

(i) Scheme Providers
(ii) Schemes
(iii) Consultants
(iv) Trustee

(A) (i), (ii) and (iii)

(B) (i), (ii) and (iv)

(C) (ii) only

(D) All of the above

Answer: (B)

Question 3

Which of the following legislation, regulations and guidelines are relevant to UTS and PRS?

(i) CMSA
(ii) Guidelines on Advertising Capital Markets Products and Related Services
(iii) Prospectus Guidelines
(iv) Licensing Handbook

(A) (i) and (iv)

(B) (i), (iii) and (iv)

(C) (i), (ii) and (iv)

(D) All of the above

Answer: (D)

CHAPTER 4

MARKETING AND DISTRIBUTION

Learning Objectives

This chapter focuses on the roles of the Distributors' investor service staff and the Consultants in the marketing and distribution of the Schemes to ensure proper investor servicing is provided.

At the end of this chapter, you should be able to understand and describe:

- The considerations required in servicing investors in the UTS and PRS industry;
- The main business processes undertaken by the Scheme Providers in the purchase; ownership and sale of the investment in the Schemes;
- Key requirements of the Schemes Disclosure Materials;
- Process flows for investing in the Schemes, which include:
  - Purchase of units;
  - Repurchase of units; and
  - Financing of purchase of UTS.
- EPF transfers and withdrawals for investments in approved UTS;
- Distributable income of a Scheme and the impact to NAV;
- Taxation of distributions;
- Reporting to investors;
- Basic principles of marketing the Scheme;
- Delivering quality service; and
- Investment alternatives to the Scheme.

Competency Level

1. Functional Competency (Process)
   i. FUP15 Sales and Marketing (Level 3)
   ii. FUP14 Know Your Client (Level 3)

Servicing Investors in the UTS and PRS Industry

4.01 Providing superior service to investors in the financial services industry is of paramount importance. Some of the world's most successful financial service companies have built their businesses on providing quality service.

4.02 Potential investors in the Schemes are not just buying an investment - they are also entering into a financial relationship (in the broadest sense) with the Consultants, Distributors and Trustee. The success of this relationship is not only measured in quantitative terms (represented by the performance of the Schemes) but also in qualitative terms such as:

(a) the ease in which transactions can be made;
(b) the responsiveness to requests and complaints made by the investor;
(c) the depth of knowledge of Distributors' investor service staff and Consultants; and
(d) the quality of ongoing reporting and investor care.

4.03 Today, businesses pay close attention to business processes covering, among others, user-friendly forms, ease of conducting transactions, and quality of investor service. Further, technology is playing a crucial role in the UTS and PRS industry, thus providing even greater opportunities for better service.

4.04 In the UTS and PRS industry, most new businesses come from repeat business with existing investors or through the network of existing satisfied investors. Therefore, it is important to always have the investor's needs in mind when providing service.

4.05 An investor's level of satisfaction will vary over the life of his or her investment in the Schemes. This is reflected in not only the underlying performance of the investment portfolio but also the quality of service provided to meet their needs.

4.06 Generally, satisfied investors are the ones that get exactly what they thought they were purchasing – e.g. an investment that is as described in the prospectus, with no unexpected investment surprises. This reinforces the fact that in the selling process, Consultants should make sure that what is promised in the sales pitch can, in fact, be delivered.

4.07 In the past, many investors have been enticed into the Schemes by the promise of high, extraordinary returns, only to be disappointed by subsequent failure to achieve unrealistic claims. It is essential that the selling process includes a full explanation of the various risks associated with investment in the Schemes to manage investor's expectations. If an investor's expectations are met, then he or she will most probably be satisfied.

4.08 An important part of properly servicing investors is 'knowing your product', so this chapter will first set out the disclosure materials that are provided to potential investors when marketing the Schemes and the contents of these disclosure materials.

4.09 This is followed by an illustration of the main business processes undertaken by Scheme Providers in the purchase, ownership and sale of an investment in the Scheme. The detailed processes outlined in this chapter are generic and may not necessarily be practiced in all transactions undertaken by each Scheme Provider. They serve as an illustration of pertinent steps and activities involved in the execution of UTS and PRS transactions which Consultants must be aware of.

4.10 This chapter will also examine some basic marketing concepts and provide relevant know-how to help Consultants market the Schemes, including a review of the main features of the alternatives to investing in UTS and PRS.

Disclosure Materials

4.11 The purpose of a disclosure material is to enable investors to make an informed investment decision in investing in UTS or contributing to a PRS by providing relevant and accurate information that is material to understanding the management and operation of the respective funds within the Scheme.

4.12 Potential investors will be given a copy (either a hard or soft copy) of the disclosure material when they request for subscription to a Scheme. In the case of UTS, this disclosure material is known as prospectus whereas for PRS the same is called disclosure document. Investors must be advised to read and understand the disclosure material before making the decision to participate in the Scheme. In addition to prospectus and disclosure documents, another disclosure material that is required to be provided to potential investors of a Scheme is the Product Highlights Sheet (PHS).

4.13 The following paragraphs describe the contents of prospectus, disclosure document and PHS.

Prospectus and Disclosure Document

4.14 Prospectuses (for UTS) and disclosure documents (for PRS) are very important documents. No sale of units in UTS can be made without a prospectus whilst no contribution can be made to PRS without a disclosure document. UTMC and PRS Providers must ensure supplementary prospectus and supplementary disclosure document are issued to capture changes made to the information in the prospectus/disclosure document and these changes must be made in accordance with the requirements set out in the CMSA and SC guidelines. Investors must be provided with all the relevant information to enable them to make informed investment decisions.

Knowing the UTS prospectus and PRS disclosure document

4.15 Consultants must ensure that an investor is given a current prospectus and/or a disclosure document. Consultants should provide the investor with the necessary explanation for any clarification that the investor may require regarding the information disclosed in of the prospectus and disclosure document before an application for subscription of units is made. Consultants should be thoroughly familiar with the prospectus of each UTS and the disclosure document of each PRS they distribute. Consultants are required to draw an investor's attention to the various sections of a prospectus and disclosure document.

4.16 While the layouts and designs of these disclosure materials may vary according to the Scheme Providers' preference, the contents of UTS prospectuses and PRS disclosure documents are governed by the SC requirements as explained in the following section.

Contents of UTS prospectus and PRS disclosure document

4.17 **Table 4.1** sets out the minimum contents of the prospectus and disclosure documents based on requirements set out in the Prospectus Guidelines for CIS and the PRS Guidelines. This list is not exhaustive and subject to change. Consultants are encouraged to refer to the said SC guidelines for further details and for any update and changes.

Table 4.1: Minimum content of UTS prospectus and PRS disclosure document

No.	Minimum content required in UTS prospectus and PRS Disclosure Document	Content description (including but not limited to)
1	Cover page	▪ Name of the Fund/Scheme ▪ Name of the Scheme Provider and its registration number ▪ Date of the prospectus/disclosure document, ▪ Name of the Trustee and its registration number, ▪ Date of Scheme's constitution, ▪ A Fund's offer period for fund's with limited offer period; ▪ In the case of a foreign fund, a statement which includes information that the fund is approved, authorised, or registered, by the securities regulator in the foreign jurisdiction; the foreign jurisdiction where the fund is domiciled, the name of the securities regulator regulating the fund and the management company; the applicable jurisdiction governing the fund and that the legal and regulatory environment there may be different from Malaysia; and where a prospectus incorporates an offer document registered outside Malaysia in respect of the fund, statement of such fact. ▪ A statement in bold that investors are advised to read and understand the document and to consult a professional adviser if they have any

No.	Minimum content required in UTS prospectus and PRS Disclosure Document	Content description (including but not limited to)
		doubts after reading the prospectus/disclosure document ▪ A statement in bold stating that prospective Investors should carefully consider certain risk factors. They are advised to refer to the "Risk Factors" section, specifying the page number in the prospectus/disclosure document where these details are provided. ▪ Where a fund’s assets consist, or propose to consist of derivatives exceeding 30% of NAV, there must be a statement, in bold and in prominent position, disclosing the fund’s substantial investment in derivatives.
2	Inside cover/first page	▪ A “Responsibility Statement” where the directors of the Scheme Provider collectively and individually take full responsibility for the accuracy of the contents and that they confirm to the best of their knowledge and belief, that there are no false or misleading statements, or omission of other facts which would make any statement in the prospectus/ disclosure document false or misleading. ▪ A “Disclaimer Statement” that the authorization of the Scheme and registration of the prospectus/ disclosure document with the SC is not to be taken as a recommendation to invest in the Scheme and investors should rely on their own evaluation to assess the merits and risks of the investment. ▪ In addition, a statement whereby Investors may seek recourse under the CMSA 2007 for breaches of securities laws and regulations in relation to the prospectus/ disclosure document or the conduct of any other person in relation to the Scheme. ▪ For Islamic Fund, an additional statement that it has been certified as Shariah-compliant by the appointed Shariah adviser for the fund. ▪ The prospectus must provide an additional statement for a fund with a limited offer period, a statement that no units will be issued or sold based on the prospectus after the expiry of the said prospectus.

<table>
<tr><th>No.</th><th>Minimum content required in UTS prospectus and PRS Disclosure Document</th><th>Content description
(including but not limited to)</th></tr>
<tr><td></td><td></td><td>▪ For a Scheme where the distribution is permitted to be made from capital, a warning statement to the effect that capital will be eroded, that the distribution is achieved by forgoing the potential for future capital growth, and that this cycle may continue until all capital is depleted.</td></tr>
<tr><td>3</td><td>Table of contents, definitions and directory</td><td>▪ Lists of all the sections and subsections of the prospectus/ disclosure document
▪ Definitions, glossary of abbreviations and technical terms
▪ Directory containing details of amongst others,
- Scheme Provider,
- Trustee,
- For an Islamic fund, the Shariah adviser,
- For a foreign fund, the representative of the fund
▪ Directory must also contain the following information:
- Address that includes the address of the registered office and business office of the Scheme Provider and Scheme Trustee,
- Telephone number that includes the telephone number of the registered office and business office of the Scheme Provider and Scheme Trustee,
- Email address, and
- Website address, if any.</td></tr>
<tr><td>4</td><td>Fund details</td><td>▪ Fund name and category,
▪ Base currency of the fund, where applicable,
▪ In the case of a new fund, the initial offer period and initial price,
▪ Investment objective and a statement that any material change to this would require Investors' approval,
▪ Investment policy and principal investment strategies to achieve the stated investment objective which include, the investment focus of the fund; the practice, techniques or approach used in managing the investment portfolio, etc.
▪ Where applicable, disclosures that the Fund invests or can invests in derivatives or embedded derivatives, including the types and characteristics of the derivatives or embedded</td></tr>
</table>

No.	Minimum content required in UTS prospectus and PRS Disclosure Document	Content description (including but not limited to)
		derivatives; the purpose of investing in it; the likelihood of high volatility of the NAV of the fund, etc. ▪ Where applicable, disclosures to a Scheme that participates in securities lending and repurchase transactions, including but not limited to the associated risks, risk management policy and procedures to address the risks; description and nature of the collateral to be received by the Scheme, risks associated with collateral management, etc. ▪ Distribution policy. Additional disclosures are required for Schemes that declares distribution out of capital, ▪ Performance benchmark of a Scheme, where applicable ▪ Permitted or authorised investments, investment limits and restrictions of a Scheme, ▪ For authorised funds, details of policy in undertaking cross trades, ▪ Where the fund's strategy is to preserve capital, a warning statement must be disclosed that the fund's capital is not guaranteed, ▪ For an Islamic fund, clear description of the Shariah approval process and statement to the effect that the investment portfolio of the fund will comprise instruments that have been classified as Shariah compliant by the SAC of the SC and where applicable SAC of BNM
5	Fees, charges and expenses	▪ Charges imposed on purchasing and redeeming units of the Scheme ▪ List of fees and expenses of the fund ▪ Disclose the policy on rebates and soft commissions.
6	Transaction information	▪ Valuation bases for assets invested or to be invested by the Scheme, including treatment of suspended counters, ▪ Valuation point, ▪ Pricing policy adopted for the fund's units (e.g. forward or historical), ▪ Procedures on purchasing, redeeming, switching and transferring units, cooling-off right, and type of distribution channel.

No.	Minimum content required in UTS prospectus and PRS Disclosure Document	Content description (including but not limited to)
		▪ Clear explanation of how unit prices are calculated ▪ Provide a warning statement that Investors must not make payment in cash to any individual agent, and ▪ Describe the mode of distribution to Investors, including policies and procedures on unclaimed monies
7	UTMC/PRS Provider	▪ Corporate profile of the UTMC/PRS Provider and their responsibilities including the name of each director and their designation, designated person responsible for the fund management of the Scheme, the Shariah adviser where applicable, and ▪ All current material litigation and arbitration, and ▪ Make available the information in Scheme Provider’s website
8	Trustee	▪ Trustee’s corporate details, ▪ Experience as Trustee to Unit Trust Funds, ▪ Roles, duties and responsibilities, ▪ Disclosure of current material litigation and arbitration, and ▪ Delegate’s information, where the custodial function of the Trustee is delegated.
9	Salient terms of deed	▪ Rights and liabilities of the Investors,, including the limitations and restrictions on their rights ▪ Maximum fees and charges permitted by the deed ▪ Increase in fees and charges and the maximum rate provided in the deed, ▪ Permitted expenses payable out of the fund’s property, ▪ Removal, replacement and retirement of Scheme Providers and Trustee, ▪ Termination of the fund and where multiple classes of units are issued, the circumstances, procedures and processes for termination of each class of units and the fund, and ▪ Unit holders’ meeting

No.	Minimum content required in UTS prospectus and PRS Disclosure Document	Content description (including but not limited to)
10	Approvals and conditions by relevant authority	▪ Where applicable, approvals obtained from any relevant authority in conjunction with the establishment of the fund, including the date of the approval, any condition attached and status of its compliance. ▪ Any waiver from any relevant guidelines which has been approved by the SC, to state the specific paragraph of the guidelines for which the waiver was sought and details of the approval and condition imposed.
11	Related-party transactions and conflict of interest	▪ Existing and proposed related-party transactions involving the Scheme, Service Providers, Trustee etc., ▪ Steps taken to resolve any conflict of interest ▪ Areas of potential conflict of interest including the Scheme Provider's policy on dealing with conflict of interest situation
12	Taxation of the fund	Report providing an opinion from the Scheme Provider's tax adviser detailing the taxation of the fund and tax liabilities of the investors.
13	Experts' reports	Where applicable, experts' opinion including an excerpt from or summary of opinion expressed and conclusion recorded in the report, whether or not the report was prepared for inclusion in the prospectus.
14	Additional information	▪ Additional information including information on how investors can keep abreast of any development in the fund, track the NAV of the Scheme and the avenue for advice ▪ List of current and any supplemental deeds, and their corresponding dates ▪ Must disclose the financial year-end of the fund and when the Investor can receive the semi-annual and annual report.
15	Documents available for inspection	A statement stating that all relevant documents are available for inspection at the registered office of the UTMC / PRS Provider
16	Specific requirements	Specific disclosure requirements for various types of funds such as index fund, money market fund, guaranteed fund, feeder fund, etc.

No.	Minimum content required in UTS prospectus and PRS Disclosure Document	Content description (including but not limited to)
17	Application form	▪ Application form which is identifiable with the prospectus/disclosure document and contains, amongst others, a statement in accordance with the requirements of the CMSA ▪ Unit trust loan financing risk disclosure statement must also form part of the application form.

4.18 In addition to the above, PRS Guidelines also require the information set out in **Table 4.2** to be included in a PRS disclosure document:

Table 4.2: Additional minimum content required in PRS disclosure document

No.	Additional minimum content required in PRS disclosure document	Content description
1	Key data/information summary	▪ Salient features of the fund, including: - scheme information, - fund information, and - fees and charges. ▪ Cross references to pages in the disclosure document which give full details on respective matters
2	Scheme details	▪ Name of the scheme, ▪ General information on the scheme and brief description of the benefits of contributing to the scheme, and ▪ Detailed description of the operations of the scheme
3	PRS Provider	▪ Must also include information on audit committee including background information of each member of the audit committee, their primary function and frequency of meeting, and ▪ Where Shariah advisers are appointed, the details such as name and corporation, experience, role and primary functions are disclosed
4	Contribution and withdrawals	▪ Procedures for: - making contributions,

No.	Additional minimum content required in PRS disclosure document	Content description
		- payment of PRS members' benefits upon withdrawals from a scheme including deduction of tax penalty for pre-retirement withdrawals, - switching between funds within the scheme; and - transfer of accrued benefits to other PRS Providers. ▪ Must also contain provisions on switching
5	Consents	▪ Statements of consent from relevant parties (e.g. advisers, reporting accountants, auditors, issuing houses, registrars etc.) for inclusion of their names and statements/reports (where relevant) in the disclosure document.

Product Highlights Sheet (PHS)

4.19 A PHS seeks to facilitate an investor's understanding of the product and also promote competition by enabling product comparisons to be undertaken by an investor. A PHS must be issued in addition to a prospectus or a disclosure document.

4.20 A PHS must be available for each UTS. In the case of PRS, a PHS must be prepared for each fund under the scheme except for the core funds of the scheme which must be covered under one PHS.

4.21 The PHS, whether in hard or soft copy, must be presented to the potential investor at the initial engagement or at the point the individual shows interest in the Scheme. Chapter 3 of this study guide outlines the key contents of a PHS and provides the guides on contents of PHS issued by the SC.

4.22 A potential investor should be given reasonable time to read and understand the PHS. He or she must be informed to read the PHS and other disclosure materials including prospectus or disclosure document and understand the contents of these documents before making any investment decision. In the case of PRS, the exception to this is when the investor chooses to exercise his or her right not to select any specific funds and to rely on the default option of the PRS. This is usually more prevalent in cases involving employer contribution on behalf of their employees.

4.23 The potential investor should be advised to read the disclosure materials in its entirety and to seek legal and investment advice if there are any doubts in their minds.

Other Advertising and Promotional Materials

4.24 Other than the prospectus, disclosure document and PHS, various other materials can be used to market and promote the Scheme to potential investors. The SC's Guidelines on Advertising for Capital Market Products and Related Services (Advertising Guidelines) state that advertisement to promote a capital market product or capital market-related service, can be made through printed, electronic, digital or any other means, and include the following:

(a) Magazines and newspaper;
(b) Broadcasts (e.g., radio, television and cinema);
(c) Display-only materials (e.g., outdoor advertising, including billboards, posters, and signs at public venues);
(d) The internet, including webpages, banner advertisements, video streaming platforms (e.g., YouTube) and social networking platforms (e.g., Facebook, LinkedIn), and microblogging platforms (e.g., Twitter);
(e) Social media and internet discussion sites;
(f) Mobile phone messages or messaging applications (e.g., SMS, MMS, text messages, WhatsApp messages);
(g) Product or service brochures and promotional fact sheets;
(h) Direct mail (e.g., by post, facsimile or email);
(i) Telemarketing activities and audio messages for telephone callers on hold; and
(j) Presentations, seminars and advertorials

4.25 Advertisers, which include UTS and PRS Consultants who market and distribute UTS and PRS, are required to comply with the minimum standards set out in the Advertising Guidelines that seek to promote responsible advertising by the advertisers. Consultants are expected to observe the following:

(a) Provide clear, fair and balanced information. Exaggerated, flamboyant, overstated or over-zealous messaging are prohibited as they may likely to mislead an investor;
(b) Treat investors fairly at all times. Attempts to mislead, deceive or exploit an investor's vulnerability such as lack of expertise or knowledge must be avoided;
(c) Ensure advertisements fit their investors and can easily be understood by investors especially those who are in vulnerable group such as the elderly;
(d) Ensure content of advertisements are consistent with information disclosed in prospectus, disclosure document and PHS;
(e) Ensure information in advertisements are current and accurate;
(f) Ensure investors are able to immediately identify the advertisement as an advertisement;
(g) Ensure a third-party advertisement provider adheres to the Advertising Guidelines;
(h) Ensure any testimonial or endorsement in an advertisement is given by a person who has invested in the Schemes or has used the advertised service. Any compensation received by the person must be stated in the same advertisement;
(i) Take reasonable measures to inform investors that the advertisement is subject to any relevant warning, disclaimer, qualification or terms and conditions;

(j) Ensure advertisements direct investors to refer to the prospectus, disclosure document and PHS. As such, the advertisement must state the issuance date of the said documents and where they can be accessed. These documents must be readily available;
(k) Must clearly state that the advertisement has not been reviewed by the SC; and
(l) Must not use the name or logo of the SC or include such information that implies the SC recommends or associated with the information in the advertisement and the promotional activity.

4.26 The Advertising Guidelines provide guidance in relation to specific components of advertising which cover the following areas:

(a) Returns, features, benefits and risks;
(b) Fees, charges and costs;
(c) Comparisons (between products or services, benefits and returns, rating and ranking as well as awards);
(d) Past performance and forecasts;
(e) Warning statements, disclaimers, qualifications or terms and conditions;
(f) Photographs, diagrams, images and examples;
(g) Timeliness;
(h) Use of certain terms and phrases;
(i) Technical language and industry jargon;
(j) Target audience;
(k) Complexity;
(l) Terms of promotion; and
(m) Use of names or logos of authorities and regulators.

In addition, it also provides guidance in relation to media platforms which covers matters relating to:

(a) Audio advertisements;
(b) Film and video advertisements;
(c) Internet advertising; and
(d) Outdoor advertising.

Consultants must take note that compliance with the Advertising Guidelines does not relieve them from other legal obligations which may be imposed on them by the relevant regulators or agencies. Consultants are encouraged to refer to the Advertising Guidelines posted in the SC's website for further details and to keep abreast of any changes or update made to the said guidelines.

Register of Unit Holders/PRS Members and Account Maintenance

4.27 Subsequent sections of this chapter show diagrams that describe the processes by which units in Schemes are purchased and repurchased. These diagrams include reference to the Register of unit holders/PRS Members maintained by a Scheme

Provider for each Scheme. The Register contains a large amount of personal data relating to each investor.

4.28 Investors may from time-to-time request that the personal data in the Register be updated for, among others:

(a) a change of mailing address and/or email address;
(b) the issuance of a new Identity Card number;
(c) a change of name;
(d) the opening of new bank account; and
(e) a change of distribution reinvestment instructions, etc.

4.29 Consultants should be aware of Scheme Provider requirements (e.g., Are certified copies of documents required? In the case of a joint holding of units, are all unit holders'/PRS members' signatures required?) in relation to the notification of changes to the Register, as they will be giving poor service to investors if they are not aware of these requirements when asked.

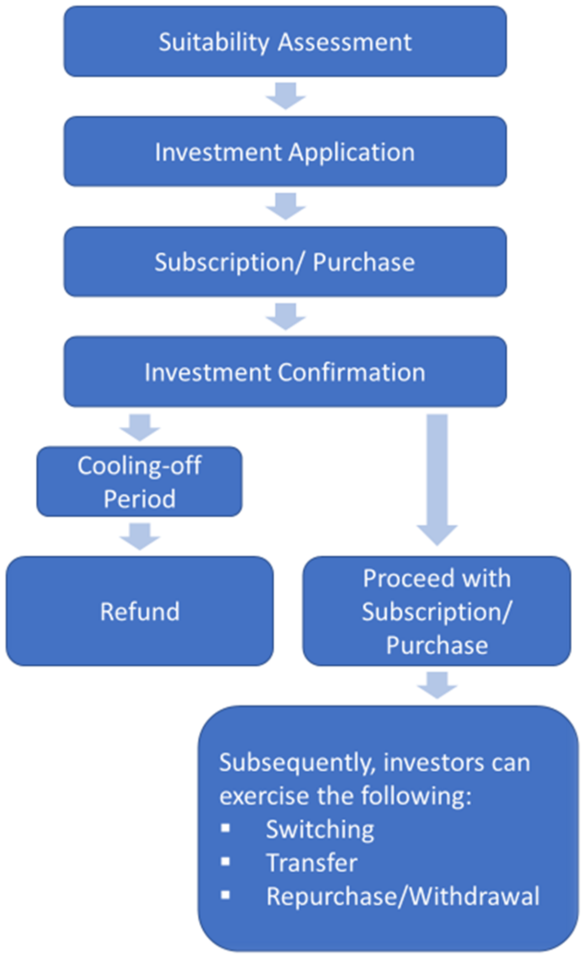
4.30 Other changes that affect an investor's investment in the Scheme include the consequences of the demise of an investor; a desire to transfer units to another person such as a spouse, son or daughter; or the registration of a mortgage or lien against the unitholding as security for a unit holder's loan.

4.31 The process of transferring a holding to a third party or to the deceased's next of kin can be complex and, again, Consultants should be aware of the exact requirements of a Scheme Provider and other applicable requirements. Consultants who offer quality investor service are aware of these requirements and will know to whom within the Scheme Provider to direct any queries.

Process Flow for Investing in UTS and PRS

4.32 As illustrated in **Diagram 4.1**, there are various requirements to an Investor on-boarding and administrative investment process for UTS and PRS. These processes are explained in the subsequent paragraphs.

Diagram 4.1: UTS and PRS investors overall investment on-boarding and administrative process

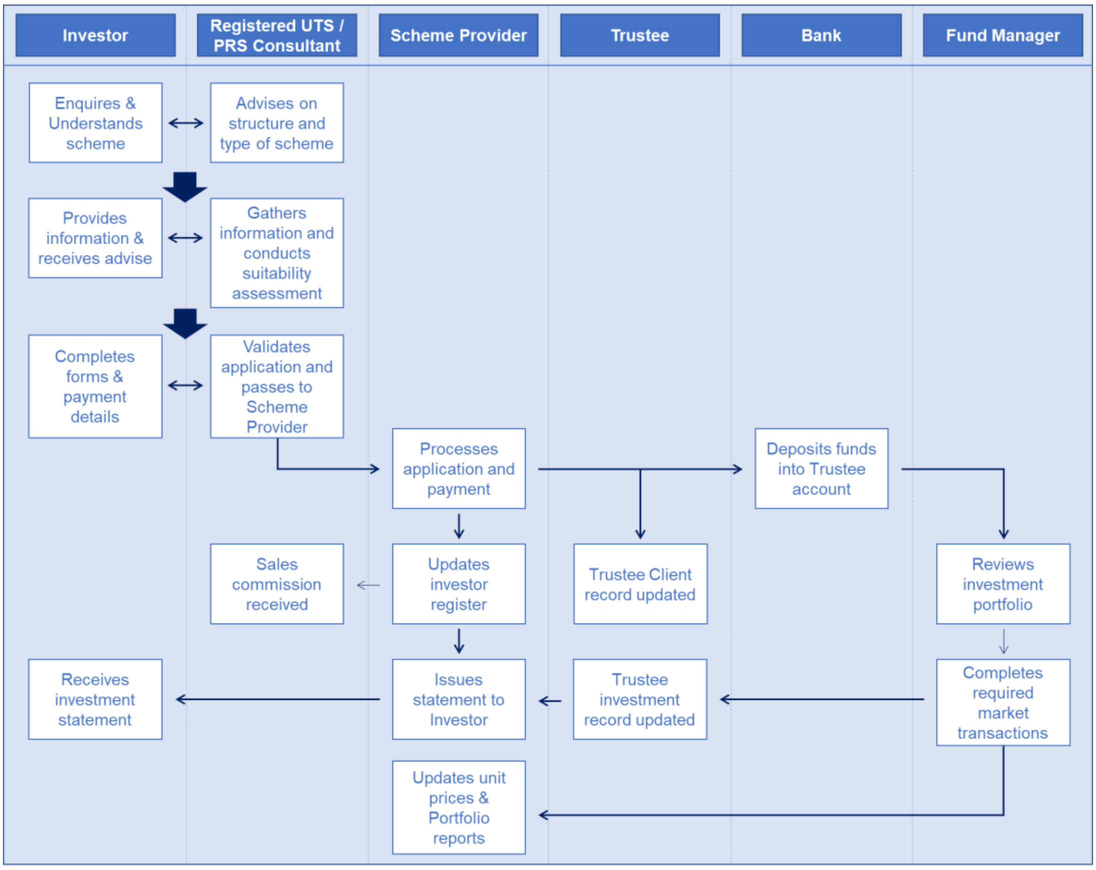


Purchase of Units

4.33 Investing in the Scheme involves various processes and steps as stipulated by regulation. These steps are important to be adhered to by the relevant parties to ensure the investment process is conducted in accordance with the relevant requirements and also to protect the investors and other parties involved.

4.34 As shown in **Diagram 4.2**, there are major steps involved when an Investor invests in a Scheme.

Diagram 4.2: Initial unit purchase processes



4.35 The purchase process begins when an investor becomes interested in, or aware of, the advantages of investment in a particular Scheme and completes when he or she receives a statement indicating the number of units purchased in the Scheme. In cases where a Consultant represents an IUTA or CUTA, the application will normally be processed by the IUTA or CUTA before being submitted to the Scheme Provider for processing.

4.36 As mentioned earlier in this chapter, the purchase process depicted in this chapter provides the generic process for purchase of units in a Scheme. Consultants should take the time to relate the processes shown in the flowchart and specific aspects of the processes described in the following paragraphs with those practiced in their organisations.

Specific aspects of the purchase process

4.37 The following paragraphs provide the narrative for Diagram 4.2 to provide Consultants with a better understanding and awareness of important aspects of the purchase transaction from the perspectives of various parties that are involved in the process:

<u>Consultants</u>

4.38 In many cases, Consultants bring about the purchase process. SC's Guidelines on Product Highlight Sheet require any person who markets and sells an unlisted capital market product to act honestly, fairly and professionally at all times. This includes the marketing and distribution of Schemes developed by Scheme Providers to suitable investors. For this, Consultants must comply with the Guidelines on Conduct for Capital Market Intermediaries.

4.39 Where a consultant is required to comply with the requirements under the Guidelines on Conduct for Capital Market Intermediaries, in relation to personal advice being dispensed to the investors are an accredited investor:

(a) the investor is a high-networth entity who has in writing signified that he/she wishes to opt out from being subjected to the requirements in the Guidelines;
(b) the investor tops up in existing schemes with the same UTMC and PRSP that has previously complied with the requirements;
(c) the consultant has previously complied with the requirements stated in paragraph 4.42 in relations to an investor and recommends the investor a range of schemes, taking into account the investors particular circumstances and the investor then seeks to invest in schemes which is within the range of shcemes that has been recommended.

4.40 Where the Paragraph 4.39 (c) and (d) applies, the consultant may rely on the information previously provided by the investor only if the investor confirms at the time of the transaction that there are no material changes to the information.

4.41 In the case of a PRS, in addition to paragraph 4.39, the requirements may be dispensed with where:

(a) a member does not make a specific selection within a PRS and therefore a selection is chosen for the investor by default;
(b) a member switches to a selection within his or her category;
(c) and employer channels contribution for the employees; or
(d) a member transfers accrued benefits from a PRSP to an existing PRS account of another PRSP.

Specific requirements in relation to giving personal advice

4.42 Prior to giving personal advice, a consultant must;

(a) explain to or inform the investor of the following before gathering the investor's information:
   (i) The purpose of gathering the information is to enable the consultant to give personal advice that is suitable to the investor, having regard to the investor's particular circumstances. In this regard, the consultant must explain that it is in the investor's interest to provide information on his or her particular circumstances which are current, accurate and complete;
   (ii) Any inaccurate or incomplete information provided by the investor will affect the personal advice given to the investor and the consultant will not be made accountable for such persona advice; and
   (iii) The risk involved in investing all or a large portion of the investor's available funds, including savings and retirement funds, in one scheme.

(b) form a reasonable basis for the personal advice to ensure that the personal advice given is suitable to the investor.
(c) take any other step that would reasonably be regarded as being for the benefit of the investor given the investor's relevant circumstances.
(d) Document the information gathered from the investor and the personal advice given to the investor.

'Reasonable basis' in giving personal advice

4.43 In ensuring there is a reasonable basis for personal advice given, a consultant must undertake the following:

(a) Gather sufficient information on the investor's particular circumstances, which includes the following;
  (i) Background information that would enable the consultant to carry out 'customer due diligence' as required and any indicators of vulnerability;
  (ii) Financial situation e.g. employment status, amount of income, financial commitment, assets and liabilities, number of dependants;
  (iii) Investment objectives and needs e.g. purpose of investment, duration of investment, capital protection security, investment preferences such as sustainable and responsible investments (SRI) or Islamic-based investments;
  (iv) Risk tolerance e.g. amount of losses the investor is willing to bear; and
  (v) Level of knowledge and investment experience for the purpose of determining that the investor has sufficient understanding of the features and risk associated with the scheme recommended e.g. investor's educational qualification, training, work experience, investment experience and current investment portfolio. The required level of knowledge and investment experience should also correspond to the complexity of the scheme.
(b) Ascertain that the Investor Information gathered is current, accurate, complete and sufficient for the purposes of giving personal advice;
(c) Conduct a review of the Investor information gathered and the scheme that are the subject matter of the personal advice, as may be reasonable in the circumstances; and
(d) Match products that are suitable to the investor based on a consideration and analysis of both, the investor information and the scheme review conducted. A scheme is suitable if it is likely to meet the investor's investment objectives and needs, having regard to the investor's financial situation, risk tolerance, and knowledge and investment experience

4.44 Where due to the investor's financial situation, risk tolerance or knowledge and investment experience, a consultant is unable to match and recommend a scheme that would likely meet the investor's investment objectives and needs or which the client has indicated an interest in, the consultant must;
(a) not make a recommendation of any schemes; and
(b) explain to the investor why the consultant is unable to recommend any scheme, including the reasons for lack of suitable schemes.

Scheme Provider

4.45 The role of Scheme Providers is obviously important to the entire purchase process. Scheme Providers have a pivotal role in coordinating and controlling the various stages in the process, from receiving the application form, reconciling payments received through online banking, banking in cheques, informing the Trustee, updating their records and then, finally, issuing the statement (or certificate) to confirm an investor's purchase.

4.46 Consultants and employees of Scheme Providers need to play their part in ensuring the quality of their work and the services rendered at all stages. As an example, a simple data entry error can cause great inconvenience for the investor. In this aspect, Consultants can do their part by ensuring application forms are properly and legibly completed.

Trustee

4.47 The role of a Trustee is supervising the purchase (and in the subsequent disposal as well) of units. The Trustee receives a great deal of information throughout the purchase process. It monitors and controls the process by reviewing the information given to it and by making its own reviews and enquiries.

4.48 The Trustee is required under the UTF Guidelines and PRS Guidelines to ensure that the procedures and processes undertaken by Scheme Providers in buying, selling, valuing and pricing of units are adequate and in accordance with the deed and regulatory requirements. Should the Trustee feel that the Scheme Provider's processes are inadequate, it will report this to Investors - together with the steps it has taken to ensure the shortcomings are corrected.

4.49 If everything proceeds as planned – and in compliance with the deed and law - the Trustee's involvement in the Scheme Provider's business processes will remain minimal. However, where inconsistencies, errors, or even fraud, are detected, the Trustee, as a watchdog, will actively be involved to safeguard the interests of the investors, and in ensuring the process is rectified.

Bank

4.50 The bank's role in the purchase process is basically to maintain the Scheme's bank accounts and, on the instructions of the Trustee, to receive funds and to honour cheques drawn or payment made.

Fund Manager

4.51 For some Scheme Providers, managing their Schemes are very much part of the business; whilst in others, the responsibility to manage the investment portfolio of the Scheme is delegated to an external fund manager (although often part of the same corporate group as the Scheme Provider).

4.52 In either case, the fund manager needs to keep an eye on cash that flows into and out of the Scheme, and to make sure that the Scheme is invested in accordance with the investment objective of the funds and in compliance with the disclosures made in, the deed, prospectus/disclosure document as well as the guidelines governing the Schemes. At the end of the day, Investors are investing into the fund manager's expertise in deriving returns from the portfolio of investments managed by them.

4.53 For example, consider a situation where an investor invests in a Scheme with an investment objective of high capital growth and minimal investment in cash. If the fund manager deviates from the investment policy by maintaining a significant portion of the Scheme's assets in cash, the Investor's exposure will differ from expectations. Should the market experience a sharp rise, the investor would be predominantly exposed to cash instead of growth equities, contrary to the investment objective. This misalignment will result in investor queries and complaints.

4.54 Over time, the investment performance of Schemes can be monitored and evaluated to assess whether the Schemes adhere to its stated objectives and mandates. One approach is to consider is the target investment return and target volatility of the fund against its actual investment performance and volatility. The following examples provide an illustration for how such measurements can be conducted. Please note that the returns and volatility rate depicted in these examples may differ from the actual figures.

Example 1:
A UTS presents itself as a traditional fixed income fund with the stated investment objective of delivering mid to high single-digit percentage returns per annum, accompanied by medium to low volatility.

The actual returns of the UTS over the past three years are are summarised in **Table 4.3**:

Table 4.3: Returns of a fund over a three (3) year period

Year	Annual return (%)	Annualised volatility (%)
1	7.3	4.2
2	8.5	5.1
3	6.8	4.8

Based on actual returns and volatility patterns over the past three-year period, it can be concluded that the UTS is essentially performing in line with its stated objectives and remains consistent with its investment mandate.

Example 2:
Fund XYZ, managed by PRS Provider CCC, is an equity fund with the objective to track the performance of the FBM Kuala Lumpur Composite Index (FBMKLCI). Fund XYZ is essentially a tracker fund.

The actual returns of the FBMKLCI and Fund XYZ over the past three years are presented in **Table 4.4**:

Table 4.4: Returns of FBMKLCI and Fund XYZ over a three (3) year period

Year	FBMKLCI returns (%)	Fund XYZ returns (%)
1	8.9	7.1
2	3.1	-2.2
3	12.3	8.8

The data clearly indicates that Fund XYZ has struggled to effectively track the performance of the FBMKLCI. The significant deviations from the index's returns suggest that the fund has failed to achieve its investment objective of mirroring the FBMKLCI. Consequently, Fund XYZ cannot be considered relevant, consistent and appropriate for PRS Provider CCC.

Cooling-Off Right

4.55 As a safeguard to an investor who may have purchased units without fully understanding the Scheme purchased, or who may have been misled by Consultants, the SC has imposed upon Scheme Providers an obligation to provide an investor with an opportunity to reconsider his or her purchase. This is known as the 'cooling-off' right, which must be disclosed in the prospectus of UTS and disclosure document of PRS.

4.56 The cooling-off right period must not be fewer than **six business days** commencing from the date of the receipt of the Scheme application by the Scheme Provider. It must be exercised within six business days. It gives a first time investor the right to a refund of his or her application money without deduction of any sales charge.

4.57 The UTF Guidelines and PRS Guidelines state that the refund for every unit held by the investor, pursuant to the exercise of his or her cooling-off right, shall be the sum of:

(a) the NAV per unit on the day the units were first purchased; and
(b) the sales charge per unit originally imposed on the day the units were purchased.

4.58 The cooling-off right is only accorded to a first time Investor except for those listed below:
(a) A corporation or institution;
(b) An employee of the Scheme Provider; and
(c) Consultants
(d) An employer making a contribution to a PRS on behalf of the employee

4.59 Consultants should be aware of the Scheme Provider's policy in applying the cooling-off right.

Illustration of a cooling-off policy adopted by a Scheme Provider:
An investor's application money relating to an application for units in a Scheme is banked in by a Scheme Provider on Monday (Day 1). The investor wishes to exercise his or her cooling-off right. Assuming business days are Monday to Friday (and there are no public holidays), the last day for receipt by the Scheme Provider of the investor's request to apply the cooling-off right will be the following Monday (Day 6).

4.60 Consultants should note that the cooling-off procedure adopted may vary amongst the Scheme Providers.

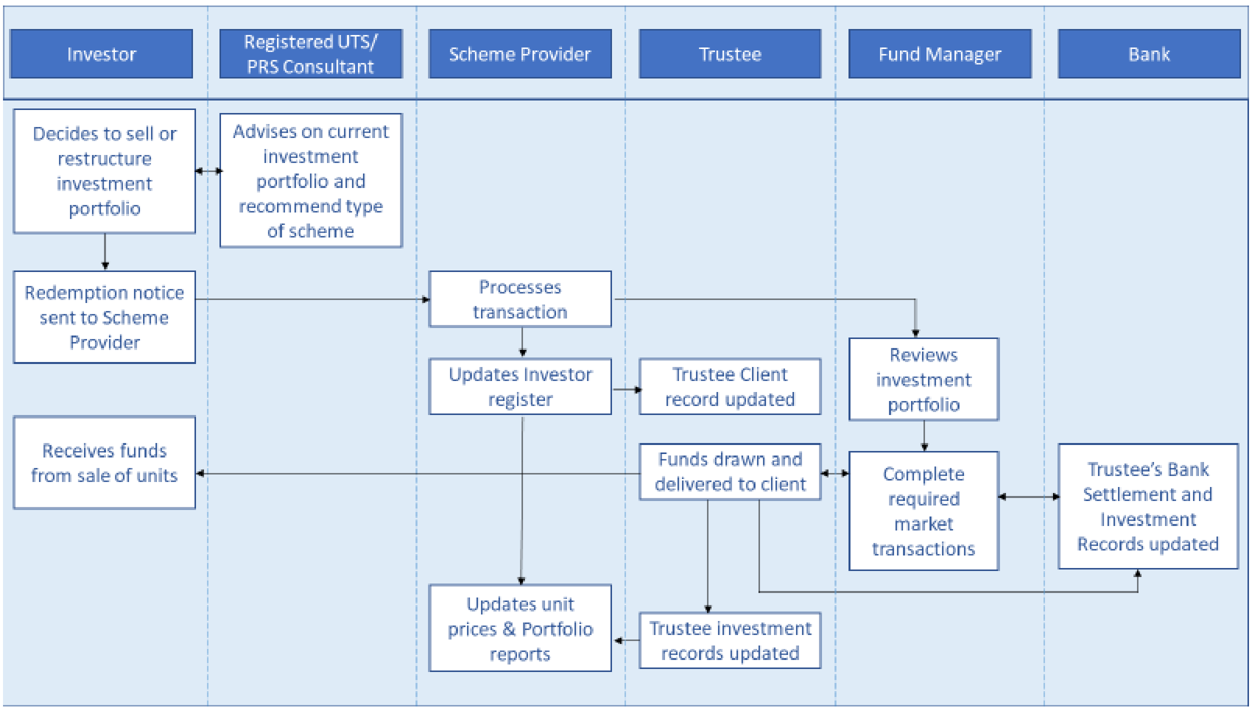
Repurchase of Units

4.61 Although investment in a Scheme is generally for investors with a medium to long-term investment horizon, investors have the right to dispose-off their units or to make withdrawals at any time. However, PRS members must be made aware that pre-retirement withdrawals are generally subjected to penalty with exemption given to certain types of withdrawals such as housing and healthcare.

4.62 Where repurchase or withdrawal is allowed, Scheme Providers are obliged to repurchase an investor's units at the prevailing price upon receipt of a repurchase request. It is important that Consultants are aware of the requirements of the Scheme Provider to avoid any delays in processing the Investor's repurchase request and payment.

4.63 The repurchase process is reasonably simple and its general process is illustrated in **Diagram 4.3**.

Diagram 4.3: Main units repurchase processes



4.64 Many of the observations and explanation made earlier in this chapter relating to the purchase of units in Schemes also apply to the repurchase process, so they will not be repeated in this section. However, Consultants must take note of the salient points highlighted in the following paragraphs.

Repurchase notice document

4.65 Most Scheme Providers have a repurchase request form, which is to be properly completed by an investor before a request to sell his or her units can be processed. The investor must also complete a payment instruction, e.g. an instruction either to credit the bank account of the investor or to forward a cheque for the proceeds to him or her. Some Scheme Providers may allow for payment to be made by telegraphic transfer.

Payout period and Scheme liquidity

4.66 The UTF Guidelines and PRS Guidelines require Scheme Providers to pay the repurchase proceeds to the investor 'as soon as possible' and within 7 business days of receiving the repurchase request.

4.67 In order to meet this requirement, Scheme Providers must make financial arrangements so that payment can be made within this period. In part, this can include maintaining a sufficient level of cash or liquid assets within the Schemes. Scheme Providers can then cancel units repurchased from investors and utilise the cash held in the Scheme (following payment by the Trustee for the cancelled units) to meet its obligations to investors.

4.68 But what happens if liquidity in a Scheme is insufficient, and the Trustee believes it is not in the best interest of the investors to sell Scheme investments to raise further cash to pay for repurchases? This situation may occur where the investments cannot be fairly valued - perhaps because the market on which the investments are listed is temporarily closed. Clearly it would be unfair to try to determine the NAV of a unit in such circumstances and, consequently, the value of the units cancelled by Scheme Providers cannot be determined.

4.69 The UTF Guidelines and PRS Guidelines, therefore, allow the Trustee to suspend **(for up to 21 days)** the sale and repurchase of units in a Scheme where the interests of the investors (or potential investors) would be otherwise materially affected. After 21 days, the consent of investors to extend the suspension date and the repurchase of units must be obtained by calling a meeting of unit holders/ PRS Members.

4.70 In all cases of suspension of the sale and repurchase of units in a Scheme, the Trustee on its own accord, considers an event triggered to warrant an immediate call for a unit holder's meeting and must notify the SC of the suspension and give its reasons for doing so. When the suspension is to be lifted, the SC must also be advised.

4.71 The effect of suspension is that transactions in that Scheme ceases. You should note that a suspension of the sales and repurchase of units in a Scheme is, fortunately, a very rare event, as it is done to protect investors in the Scheme.

Switching

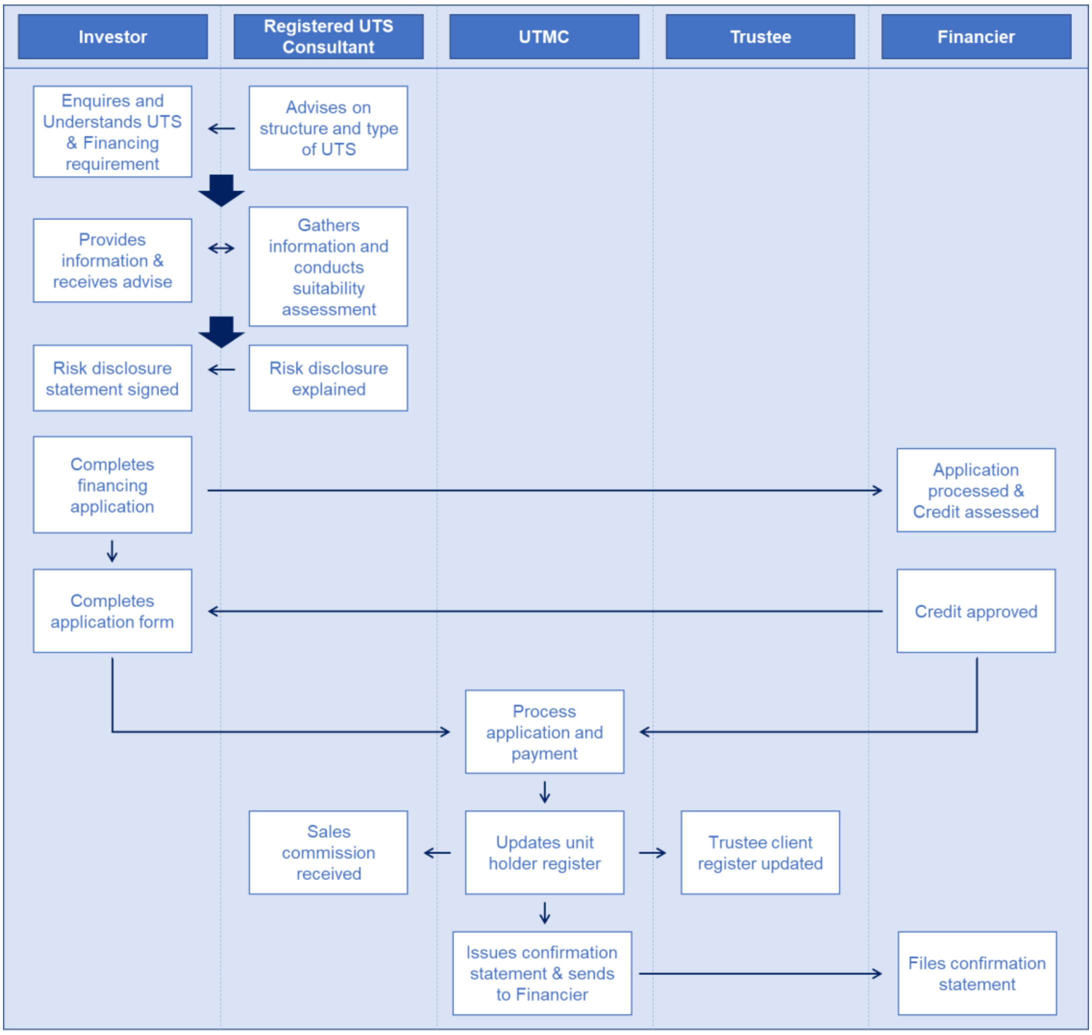
4.72 An investor may request that the proceeds from the disposal of his or her units be reinvested in another Scheme offered by the same Scheme Provider. This transaction is called a 'switch', and may be broken down into a repurchase of units in one Scheme and a sale to that investor of units in another Scheme. The processes are largely the same as those paragraphs where purchase and repurchase of units were described in this chapter, except that the payment for units repurchased by Scheme Provider is automatically processed as the application amount for units in the second Scheme.

4.73 Consultants should familiarise themselves with Scheme Provider procedures in relation to a switch. Often a switch will be in an investor's best interest as Scheme Provider may reduce or waive the fee on application for units. A switch can be useful in varying an investor's portfolio as a result of changing market conditions or personal circumstances. However, Consultants must be aware that although switching fees may be waived, sales charges may be incurred, e.g., when switching from a no-load to a loaded fund. For this, investors must be properly apprised of the charges that apply.

Financing the Purchase of UTS

4.74 This section describes the additional steps Consultants must complete prior to an investor's purchase of units in UTS, where the units are acquired with borrowed funds. Consultants must take note that loan financing is not allowed for the purchase of PRS. The process describes in this section reflects the safeguards introduced by the SC to raise investor awareness of the additional risks faced by investors who wish to finance an investment in UTS. The process also highlights the potential opportunities to abuse the trust of investors, where UTS Consultants are motivated by the additional commission that may be earned from the purchase of units using funds borrowed by the investor.

Diagram 4.4: Main processes for purchase of units with borrowed funds



4.75 The major additional steps in the purchase process to be noted in relation to the financing of purchases of units in UTS are as follows:

(a) Before an application form is submitted to a UTMC for the purchase of units in UTS, an application for loan finance needs to be made. The lender will assess the creditworthiness of the applicant - looking at his or her ability to service the debt, and also at the quality of the security (collateral) being offered (e.g., the units in UTS). The lender will also assess, according to its own credit policy and relevant regulations, the amount that can be lent against units in that UTS.

(b) Once approval has been given, most lenders will insist that the payment is made directly to the UTMC, rather than to the investor. This is to ensure that the loan is used for the purpose stated in the loan application. The borrower will need to sign the loan contract, which will state the interest rate and the repayment terms.

(c) Once the application for units has been processed by the UTMC, the lender will be sent the unit certificate (or confirmation that the interests of the lender have been protected). A certificate/confirmation statement will be held in safe custody by the lender and will form part of the security for the loan. The Investor will also receive a statement from the UTMC indicating the number and total cost of the units purchased in the UTS.

(d) If, over the life of the loan, the loan-to-valuation ratio falls below the level prescribed in the loan document (e.g., in periods of falling investment markets), the lender will generally require a margin call in the form of a cash payment to the lender (or request that 'top-up' collateral be provided). This ensures that the lender has adequate security in the loan transaction.

(e) When the units in the UTS are repurchased, the proceeds are usually paid by the UTMC directly to the lender. After repayment of the outstanding loan amount, the net proceeds are forwarded by the lender to the investor.

4.76 The salient requirements imposed by the SC in relation to financing the acquisition of units in UTS are described in the following paragraphs.

4.77 The Guidelines on Marketing and Distribution of UTF state that UTMC must ensure that UTS Consultants do not, directly or indirectly, encourage the sale of units through loans. The sale of units in a UTS and the financing of that acquisition are, therefore, to be viewed as two totally separate transactions. Accordingly, promotional materials containing projections of returns based on the Loan Scheme are not allowed. This is to ensure that investors are not misled by attractive projected returns, which could, at times, be exaggerated by over-enthusiastic UTS Consultant.

4.78 The Guidelines on Marketing and Distribution of UTF requires UTMC to ensure that, in communicating information on loan financing for units, UTS Consultants provide full and frank disclosure and do not omit any material fact, so that investor can make an informed decision before borrowing. UTS Consultant should only provide factual information and, subsequent to that, explain clearly the risks of leveraging to the prospective investor. UTS Consultant should, to the best of their ability, ensure that the investor understands the risks before investing.

4.79 UTS Consultants are required to fully explain to an investor the risks involved in leveraging his or her investment. In this connection, UTS Consultants are required to obtain from the investor a signed copy of the Unit Trust Loan Financing Risk Disclosure Statement (see **Appendix 4.1**) to confirm that the risk involved in borrowing to finance the acquisition of units in a UTS has been explained and that the investor understands the contents of that Statement.

4.80 UTS Consultants are required to attach the original Risk Disclosure Statement signed by the investor to the application for units, after which it is to be filed by UTMC for record and inspection purposes, and to forward a copy to the investor. The Risk Disclosure Statement clearly outlines the main risks involved in loan financing:

(a) The higher the margin of financing, the greater the potential losses as well as the potential gains.

(b) The servicing of loan repayments may become more onerous if interest rates rise. (Note that this does not apply where the loan is at a fixed interest rate for a specified term.)

(c) Margin calls (or requests to 'top up' collateral against a loan) may be requested in addition to normal repayments. Failure to make these payments may cause the units in UTS acquired with borrowed funds to be force sold to repay all or part of the loan.

(d) Returns on UTS are not guaranteed, and may vary from year to year. The timing of a disposal of units in the UTS (perhaps to repay the loan) may result in a loss, even if the investment performance was favourable prior to that date.

4.81 The Risk Disclosure Statement encourages borrowers to ask the lender for further information, if he or she is unsure about any aspect of the risks associated with the loan.

4.82 The Risk Disclosure Statement also serves to protect the interests of UTMC and UTS Consultants in the event of any dispute, should an investor's returns fall below expectation caused by circumstances beyond the control of UTMC, or should the investor face difficulty in servicing the loan.

4.83 The UTF Guidelines also state that the margin of finance for loans should not exceed 67% of the application amount (UTMC are responsible for ensuring the margin is not breached). This means that an investor can only obtain a loan of up to twice the value of his initial deposit or investment in UTS. For example, an initial deposit of RM10,000 that is paid by an investor enables the investor to borrow up to a further RM20,000 for investment in UTS (e.g. the borrowing represents 66.67% of the total cost of units acquired).

EPF Transfers and Withdrawals for Investment in Approved UTS

4.84 EPF members may withdraw from their EPF savings and invest in approved UTS under the EPF Members' Investment Scheme (EPF-MIS). Such investments can be made online either via online portals that are operated by EPF, UTMC or IUTA approved by EPF. EPF members are encouraged to consult a UTS Consultant before making any investment decision. Consultants must take note that the EPF-MIS is not available for PRS.

The front-end charges for investments in approved UTS are up to 3% of the investment application if it is made through UTMC's agent/counter and up to 0.5% for investment application if it is made through online portal. These charges are subject to changes by EPF.

Consultants should ensure that they are fully aware of the administrative processes involved before advising potential investors on the EPF-MIS. The following are some of examples of administrative processes which Consultants should take note of:

(a) Repurchase proceeds of units previously acquired with savings in EPF will be repatriated to EPF;
(b) Switches between UTMC are not allowed, and must be processed as a redemption from the existing UTS, followed by an application to the new UTMC according to procedures described earlier. The redemption proceeds must be credited to the investor's EPF account as described above; and
(c) A unit holder who wishes to invest in a single UTS with both savings transferred / withdrawn from EPF and savings from other sources must make two (2) investment applications.

Conditions for the transfer and withdrawal from EPF to invest in approved UTS

4.85 The amount of transfer and withdrawal that can be made by EPF members is subject to the conditions set out in the **Table 4.5**:

Table 4.5: Restrictions on transfer and withdrawals for EPF-MIS

Age below 55 – transfer from Account 1	Age 55 and above – withdrawal from Account 55 or Account Emas
Up to 30% of the total savings exceeding the basic savings in Account 1	Any amount in Account 55 or Account Emas but must retain at least RM1,000 in the account

4.86 **Appendix 4.2** of this Chapter provides further information on the basic savings requirement that is applicable to EPF members age below 55.

4.87 In addition to the above, EPF members are also required to meet other requirements which include:

(a) The minimum investment amount is RM1,000; and
(b) EPF members are allowed to undertake multiple transactions within three (3) months as long as the transaction is within the eligible amount.

4.88 Consultants must be aware that EPF members who opt to participate in the EPF-MIS must also observe other administrative conditions set by EPF. Consultants are encouraged to keep themselves abreast of these requirements and any changes or updates made to these requirements by visiting EPF website.

Distributable Income of a Scheme

4.89 Scheme Providers will determine, with the Trustee's approval, the total amount of income of a Scheme to be distributed to investors. There is no obligation for the Directors of a Scheme Provider to declare a distribution, although the investment objectives of the Scheme, investors' expectations, competitor Scheme distribution rates, and bank deposit rates all affect the decision.

4.90 The amount available for distribution from a Scheme may include realised income or gains and from the capital, e.g.

(a) dividend income received;
(b) interest income received;
(c) other income received;
(d) realised capital gains from the sale of investments;
(e) and after deducting expenses and taxation.
(f) variable price funds based on certain conditions (e.g. transparency of the impact on the fund's net asset value etc.)

4.91 The SC requires that the amount of income from a Scheme actually paid to Investors (or, at the request of a UTS investor and in the case of a PRS Investor, reinvested in additional units) should reflect the objectives of the fund. Schemes with an income objective should generally make income distributions at a level greater than those from Schemes with a capital growth objective. In addition, the following factors should also be taken into consideration:

(a) total returns (e.g., income and capital growth) earned by the Scheme during the period;
(b) the Scheme income for that period or year;
(c) that sufficient cash flow exists with which to make the payment; and
(d) the stability and sustainability of the distribution.

4.92 The Trustee is required to include, within the annual report of a Scheme, a statement verifying that the income distribution reflects the investment objectives of the Scheme.

4.93 Scheme Providers must not dispose of investments of Schemes for the sole purpose of realising capital gains for distribution to investors who invest in the Schemes. Disclosure in the financial statements of the source of distributions from the Schemes is also required. The objective of these requirements is to ensure that investors are not misled by apparently high 'income' distributions that may be sourced from realised capital gains, and to provide better disclosure to investors and prospective investors as to the possible level of income distributions in future years.

4.94 Consultants have the responsibility to advise investors that a Scheme with a capital growth objective does not normally pay out a high level of income distribution. Then - with the advice of Consultants - investors can better structure an investment portfolio of Schemes likely to produce the desired level of income untainted by amounts of capital gain paid out at the same time. An investor using distributions of capital gains to meet normal living expenses may be unaware that his or her investment capital is being eroded.

4.95 Another aspect of the income distribution which PRS Consultants should be aware of is that two PRS funds may provide the same average total return but one fund pays a higher dividend. If a PRS member has some short-term liquidity preference, then the higher dividend income would appeal to the PRS member even if the returns for both funds are the same.

4.96 Further, for the PRS member, any dividend income must be paid out in the form of units and withdrawal of the dividend must be deferred until the PRS member has reached retirement age. This is the same for dividends declared by the EPF which is also not accessible by the EPF member until he or she reaches retirement age.

Distribution impact on NAV

4.97 Distributions will reduce the NAV per unit because part of the NAV per unit is returned to the investor in the form of a cash payment. In the case of the Schemes where units are given in lieu of cash payment, the NAV per unit of the fund will still be reduced because there will be more units created from the same pool of funds.

Example:

As of 1 March 20X2, Member QQQ owned 800 units of Fund MNO with an NAV per unit of RM2.00. A distribution of RM0.40 per unit was declared and paid on the same date in the form of fund units. Immediately after the payment of the distribution, Member QQQ would hold 1,000 units of Fund MNO with a lower NAV per unit of RM1.60. Even though the NAV per unit had been reduced with the distribution, Member QQQ was not made worse off as he still had the same amount of wealth as before.

The calculations for Member QQQ's holding of 1,000 units of Fund MNO at NAV per unit of RM1.60 after the distribution are as follows:

$$Value\ of\ income\ distribution = Distribution\ per\ unit * number\ of\ units\ owned$$
$$= RM0.40\ per\ unit * 800\ units = RM320$$

$$Number\ of\ units\ received\ from\ the\ distribution$$
$$= \frac{Value\ of\ income\ distribution}{NAV\ per\ unit\ after\ distribution}$$
$$= \frac{RM320}{RM1.60\ per\ unit} = 200\ units$$

$$Number\ of\ units\ owned\ after\ income\ distribution$$
$$= initial\ number\ of\ units\ owned + number\ of\ units\ received\ from\ distribution$$
$$= 800\ units + 200\ units = 1{,}000\ units$$

If the PRS Provider chooses not to distribute income or declare a dividend, the unit price of the fund will increase with the growth of the NAV. At all times, the NAV of a fund should reflect all the available income accrued to it.

"Buying" a Distribution

4.98 The unit day method (or similar time-apportionment methods) of determining investors distribution entitlements is often used where the unit price of the Scheme remains fixed at RM1.00. The date of purchase or sale of a unit by an Investor is, therefore, accurately and equitably reflected in his or her distribution entitlement.

4.99 However, where the distribution entitlements for an accounting period are made according to the number of units held on the ex-distribution date, it is possible for an investor to become entitled to the full amount of a distribution (cent per unit) by acquiring units immediately prior to that date. In other words, the period of ownership prior to the ex-distribution date is irrelevant. Schemes that operate in this way determine an investor's distribution entitlements in exactly the same manner as dividends in a company are determined. It is possible, therefore, to 'buy' a distribution entitlement for the full period by acquiring units just before the ex-distribution date.

4.100 Consultants may attempt to use the forthcoming entitlement to a distribution from the Scheme to encourage investors to buy units immediately. Is this appropriate? The investor may appear satisfied having received a distribution entitlement for six months or more, despite being invested in the Scheme for perhaps only a few days. However, the decision to buy immediately prior to the ex-distribution date has reduced the investor's capital, since the Scheme prices will fall on the following day by the amount of the distribution. The investor has, in effect, turned his or her capital into income and is not better off. (Indeed, if an additional tax liability arises on that distribution, the investor may be worse off)

4.101 Consultants who use this technique to encourage acquisition of units in Schemes close to the ex-distribution date is not acting in the best interests of the investor.

Taxation of the Distribution

4.102 Generally, a unit holder includes in his or her income tax return, with all other sources of taxable income, the taxable income amount of the distribution paid (or reinvested), and will receive a tax credit to be offset against total tax payable for the year on total taxable income.

4.103 If a tax refund is due, the amount of the UTS tax credit can (in whole or part) be claimed back from the Inland Revenue.

4.104 A unit holder who receives a distribution would complete Form B (Return of Income by Individual) and include with Form B the Original Malaysian Tax Voucher to claim a tax credit. **Appendix 4.3** provides a sample of a Tax Voucher with some explanatory notes for the items disclosed in the Tax Voucher.

4.105 Consultants should note that distribution of income in the form of units of the PRS fund to the investor which are reinvested in the PRS are not liable to tax.

Reporting to Investors

4.106 Keeping investors informed is a vital part of quality investor service. An investor in a Scheme will receive a number of statements and reports during the life of his or her investment. (Note that each Scheme Provider will have its own reporting processes, so investors may not receive all the reports described below or may receive combined reports. In particular, the frequency at which some reports are issued by Scheme Providers may vary.)

On acquisition of units in a Scheme

4.107 An investor in a Scheme will generally receive from a Scheme Provider:

(a) confirmation that the investor's application amount has been received;
(b) confirmation of the number of units acquired in the Scheme, and the NAV of a unit on the date of allotment of units;
(c) confirmation on the rate of initial service charge imposed both in percentage form and actual value as well as the net amount invested net of service charge; and
(d) a certificate for the number of units issued may be provided but this practice is becoming less common and a statement is issued instead. i

During the period in which units in a Scheme are held

4.108 Scheme Providers will commonly issue to all investors a statement showing not only the number of units held but the valuation at the date of the statement in regular intervals – quarterly, half-yearly or annually. This is particularly common where no certificates of units held are issued to investors by Scheme Providers. Such statements are usually accompanied by a report or update on the performance of the Scheme.

4.109 The UTF Guidelines and PRS Guidelines require each Scheme to publish at least two reports for each financial year - a semi-annual report and an annual report. Each investor is to be sent a copy of each report within two months after the end of the financial period. These reports provide comprehensive information about the performance of a Scheme. Consultants are strongly encouraged to familiarise themselves with the reports.

4.110 The opportunity to discuss the reports and answer related questions is an excellent way to provide superior investor service. These reports help investors to monitor the progress of his or her investments and discover whether the investments continue to meet his/her objectives.

Annual report

4.111 The major contents of an annual report of a Scheme include:

(a) Fund Information

This section describes the fund including the name, type and category of the fund, the fund's investment objective, performance benchmark, and distribution policy.

(b) Fund Performance

(i) This section must include a comparative table covering the last three years or since inception if shorter, showing for the end of each financial year of, amongst others, the following:
  - portfolio composition of the fund;
  - NAV of the fund;
  - NAV per unit and the number of units in circulation as at the end of each year;
  - Highest and lowest NAV per unit;
  - Total return of the fund and the breakdown into capital growth and income distribution;
  - Distribution per unit;
  - Total expense ratio;and
  - Portfolio turnover ratio.

(ii) This section must also include the average total return of the fund measured over one year, or since inception if shorter, three years and five years, and annual total return of the fund for each of the last five financial years, or since inception if shorter.

(iii) There must be a warning statement that past performance is not necessarily indicative of future performance and that unit prices and investment returns may go down, as well as up.

(c) Manager's Report

This report would state among others:

(i) the Scheme's operational review of the fund;

(ii) the Scheme's performance in the last five financial years, or since inception if short, and should be illustrated in graphical form;

(iii) Comparison between the fund's performance and the performance of the benchmark disclosed in the prospectus;

(iv) Write-up of the analysis of the fund's performance based on NAV per unit adjusted for income distribution (if any) since the last review period; and An explanation on the differences in portfolio composition between the current and previous year;

(v) A statement whether any soft commission has or has not been received by the management company or Fund Manager for the period under review;

(vi) A statement on whether cross trade transactions have been carried out during the reported period and that the persons undertaking the oversight functions has reviewed that such transactions are in the best interest of the fund; and(vii)an economic review, including stock market review, outlook and proposed investment strategy and policies employed during the period under review.

(d) Trustee's Report
  (i) The Trustee must state whether, in its opinion, the Scheme Provider has managed the Scheme in accordance with:
  - the limitations imposed on the investment powers of the Scheme Provider under the deed; securities laws and relevant guidelines;
  - Valuation and pricing is carried out in accordance with the deed and any regulatory requirements; and
  - Creation and cancellation of units are carried out in accordance with the deed and any regulatory requirement.

  (ii) The Trustee must also disclose of any shortcomings it has found in the shortcomings which may have an impact on the decision of existing or potential Investors to remain invested or to invest in a Scheme; and must highlight steps taken to address the shortcomings and the steps taken to ensure the shortcomings are corrected and do not recur.

(e) Shariah adviser's report, where applicable (for PRS)

(f) Financial Statements of a Scheme and Auditor's Report
The financial statements should give a true and fair view of the Scheme and should be prepared in accordance with generally accepted accounting principles, statutory and legal requirements, and the deed.

<u>Semi-Annual Report</u>

4.112 The Semi-Annual report of a Scheme should, as a minimum, include:
(a) Fund information;
(b) Report on fund performance;
(c) the Manager's Report;
(d) the Trustee's Report;
(e) Shariah adviser's or panel of advisers' semi-annual review report where applicable; and
(f) financial statements for the semi-annual financial period.

4.113 For semi-annual reports, it must be clearly stated whether the financial statements in the semi-annual report are audited or not.

Redemption of units

4.114 An investor in a Scheme will generally receive from a Scheme Provider:

(a) confirmation of receipt by a Scheme Provider of a proper request (and, if applicable, correctly endorsed unit certificate) that it repurchased from the investors specified number of units, all units, or units to a specific value;

(b) confirmation of the number of units redeemed by the investor, the NAV of a unit on the date of repurchase of the units, and the total amount payable net of fee to the investor by the Scheme Provider;
(c) confirmation of the rate of exit fee (if any) imposed both in percentage form and actual value as well as the total amount repurchased;
(d) confirmation of the current balance (if any) of units held following the disposal;
(e) if the Scheme Provider issues certificates for units held, a new certificate (balance certificate) for the remaining units; and
(f) in some cases, a passbook entry reflecting the redemption of the Investor's interest in a Scheme.

4.115 Whilst a PRS member enjoys a tax relief of up to RM3,000 in respect of contributions made to a PRS from year of assessment 2012 to 2030[5], a pre-retirement withdrawal (e.g., before attaining the age of 55), is subject to a tax penalty of 8%. However, this tax penalty will not apply to pre-retirement withdrawals :-
(a) After reaching the retirement age;
(b) Due to death of a PRS member;
(c) Due to permanent departure of the PRS member from Malaysia;
(d) Due to permanent total disablement, serious disease or mental disability of an investor;
(e) For healthcare purposes; and
(f) For housing purposes.

4.116 Consultants may refer to the PPA's website for any update on the latest tax relief available to PRS members.

Basic Principles of Marketing the Scheme

4.117 The growth in investment in UTS and PRS in Malaysia implies that there are opportunities for professional marketing management by Distributors and Consultants. It means that Schemes should not just be 'sold'. The long-term winners in the UTS and PRS industry will be those who establish an image, identity and loyalty for their particular Scheme.

4.118 The Schemes, therefore, require a disciplined and professional marketing approach. During the time a Scheme is conceptualised, designed, approved, promoted, distributed and finally repurchased from the investor, it is the long-term needs and servicing of the investor that must constantly be considered.

4.119 The same discipline required in the marketing of packaged goods and services have to also be applied to marketing of a Scheme. The needs of both investors and distribution channels must be considered. However, there are numerous differences in emphasis when marketing a Scheme as opposed to other financial products. Among the unique considerations in marketing the Schemes are:

(a) multiple and alternative distribution channels are available - some Scheme Provider market directly to investors while others secure sales of the Schemes

[5] Kindly refer to the Private Pension Administrator (PPA) website from time to time for the latest updates on PRS tax relief.

through their own network of Consultants or other distribution channel;
(b) regulatory and compliance requirements have a significant impact on communications material - including prospectus contents, advertising, direct response, sales promotion kits, and public relations activities;
(c) the varying degree of sophistication and product knowledge of the various distribution channels, and of the investors who purchase a Scheme; and
(d) pricing and compensation scenarios (e.g., sales charges and management fees, and commissions and other incentives to distributors).

Delivering Quality Service

4.120 There are a number of reasons why marketing of the Scheme sometimes fails to produce sales and business volume, for example:

(a) Product Awareness
Many potential investors are unaware of how the Scheme can help them increase their net worth. Others may be fearful because they do not understand the product. Distributors and Consultants have an important role in helping more investors reap the benefits of investing.

(b) Not for Me'
Some may not consider themselves as potential investors because Consultants are unable to identify their needs, and thus the potential investors regard the Scheme as inappropriate to their investment objectives or style.

(c) Performance
Some Schemes have not performed well in relation to their peers and/or their benchmark.

(d) Risk Elements
Some fear losing their capital by investing in the Scheme, which they may consider to be 'just like shares' compared to safe havens such as savings accounts and fixed deposits. These and other objections, such as potential investor's' previous bad experience through mis-selling by Consultants, represent a considerable challenge for Distributors and Consultants in increasing the ownership (or penetration) of the Schemes amongst Malaysian investors.

4.121 In the UTS and PRS industry, most new businesses comes from repeat business with satisfied existing investors or through their network or recommended contacts. Consultants can satisfy the investors' needs and help to address investors' concern by delivering quality service which include the following:

(a) Know your products well.
A Consultant should be well versed with how the fund/Scheme functions as well as the characteristics of the funds within the Scheme. Knowledgeable Consultant will be able to assess the needs of the investors and will be able to

advise the investors adequately by matching the appropriate funds to the investor's requirements and resources.

(b) Manage the expectations of the investors.
Studies have shown that delivering what the investors expectation of their investment needs e.g., the funds as described in the prospectus/disclosure document where a statement that the Scheme may or may not generate investment returns over a period of time will enhance Investors' confidence over the Schemes.

Thus, it is essential that there is no exaggeration during the marketing pitch and the Consultant explains the risks of the various funds of the Schemes as well as why certain funds are recommended to the investor based on the Investor's risk profile after performing risk assessment with the Investor. The Consultant must also make the investors realise that risk of capital loss in any investment is a common occurrence and there is always a chance of significant capital loss in their investment. Investors should also be advised of the effect that dividend payout, inflation, taxation and investment cost may have on investment returns. Further details on the effect are provided in **Appendix 4.4** of this chapter.

(c) Understand the Investors and provide the investment advice that is suitable to their needs
Consultants need to consider the following when they provide investment advice on the Schemes to investors:

(i) Investor's investment goals
The Consultant should understand his/her investor's investment goal e.g., does the investor seek to preserve capital or want to earn relatively high investment returns over time.

(ii) Investor's investment horizon
The Consultant should identify the investor's investment horizon as it will influence portfolio construction. The following are some examples:

- Individuals approaching retirement (40s and beyond): Such Investors nearing retirement may prefer stable and conservative investments, such as bonds and money market funds, to preserve capital and reduce volatility.
- Individuals in their 30s and 40s: Investors in this phase, with a shorter period until retirement, may opt for a balanced portfolio comprising both bonds and equity funds to achieve moderate growth while managing volatility.
- Individuals in their 20s and 30s: Younger investors, with a longer time frame and stable income potential, may consider higher-risk instruments such as emerging market equity funds, which offer greater growth potential over time.

(iii) Investor's investment portfolio
The Consultant should find out the composition of the investment portfolio currently held by the investor so that the Consultant can recommend funds that are appropriate and complementary to the existing portfolio.

For example, an investor may have his entire portfolio in UTS that invest in Malaysian equities. The Consultant may advise the investor to consider investing in a Scheme that is predominantly fixed income or in international equities for portfolio diversification.

(iv) Age, personal circumstance and risk tolerance

The age of the investor, his or her personal circumstances and risk tolerance plays a huge role in portfolio construction and advice. The following are some examples how these elements may influence the investor's investment needs:

- A person may be young but have high income needs (e.g., providing for dependent parents, servicing student loan etc.) or an older investor may have little need for current income (e.g., all debts are fully paid).
- A young investor may have very little tolerance for short-term volatility of returns. For example, someone who has just started work may need to accumulate assets quickly with a specific aim in mind (e.g., buy a house to live in with his family or start a new business) and therefore, this individual will not be able to tolerate volatile equity returns given that his particular investment horizon is relatively short.
- An investors who is in his 50s may have surplus cash for multi-generational investing (e.g., he will leave the results of his investing to his children). The investment horizon is long and the risk tolerance will be considerable.

4.122 In addition to the above, there are best practices that can help Consultants to provide quality service. Some examples of these best practices are as follows:

(a) Make sure the investors understand what they are investing in;
(b) Inform the investor about the processes involved in the purchase and repurchase of units and how long these might take;
(c) Ensure that the total transaction time, from start to finish, is reasonable; and
(d) Be responsive to investors' requests and queries.

Investment Alternatives to the Schemes

4.123 As Malaysians become more financially literate, they seek for more sophisticated investment tools that offer returns above traditional bank deposit rates.

4.124 Currently, a majority of Malaysia's financial assets is tied to the banking system, mainly in savings and fixed deposits. In contrast, other countries allocate a greater proportion of financial assets to higher yielding instruments such as UTS and Pension Schemes). These investments offer exposure to growth assets such as shares and property and bonds. This trend is becoming more prevalent in Malaysia as investors seek higher returns on their capital and recognize the associated risks.

4.125 When marketing the Schemes, it is important to be aware of other investment alternatives available to the Malaysian investor. The major alternatives are summarised below, together with a commentary on how investment in the Schemes might be compared.

Cash and fixed deposits

4.126 Cash and fixed deposits with banks and other financial institutions generally provide a safe, but relatively low long-term return. Most individuals need to maintain a bank account and some allocate a relatively high portion of their assets in bank deposits. Deposit products range from simple overnight cash deposits to more long-term deposits, e.g., a two-year fixed deposit.

4.127 Whilst deposits with a financial institution can be considered low risk, there remains a possibility of default.

4.128 However, the major drawback of cash and fixed deposits is their lower return compared to other investments. Although they may perform well over short periods, historical data from global markets show suggest that equities, property and bonds can provide better real investment returns over the long-term.

4.129 Recognising this, Scheme Providers have introduced Schemes designed for risk-averse investors who prioritise capital security while seeking regular income payments.

Direct share investments

4.130 Direct share ownership and trading were particularly popular among Malaysian investors in the mid-1990s. In fact, transactions carried out by smaller to medium ticket size investors (e.g., retail rather than institutional investors) played a major role in driving Bursa Malaysia trading volume during the bull run.

4.131 Many retail investors may mistakenly believe they can achieve quick profits by trading shares.

4.132 A key challenge for retail investors is selecting which stocks to purchase from the numerous counters on Bursa Malaysia. Limited funds restrict them to investing in only one or two stocks, increasing the risk of poor performance.

4.133 Successful direct share investing requires financial expertise and considerable time. Becoming proficient in investment analysis takes years of learning, and most retail investors lack the opportunity to deeply understand the investment markets. Direct share investments tend to be more rewarding when investor adopt a long-term approach and focus on fundamentally sound companies. However, identifying such companies remains a challenge.

4.134 Holding a limited number of shares lacks the diversification benefits of the Schemes. The direct share investor effectively put ‘all his or her eggs in one basket’, exposing themselves to significant risk.

4.135 To benefit from direct share investment, an investors needs a substantial capital base to diversify across 30-40 different stocks, the knowledge to select the right stocks, and the time to monitor and adjust their portfolio accordingly.

4.136 In contrast, UTS and PRS managers possess the expertise to select appropriate stocks from various sectors to diversify risks. They are supported by full-time research teams that facilitate investment decisions. With the pooled funds from multiple investors, these Fund Managers can apply diversification strategies more effectively.

Direct investment in property

4.137 Many Malaysian investors have benefited from direct property investments, such as purchasing an apartment for investment purposes). However, they have also experienced downturns in the property market, highlighting the cyclical nature of the property sector.

4.138 While property is often considered a long-term 'store-house' of wealth, small investors may struggle to gain exposure due to the significant capital required. Financing a property purchase often necessitates borrowing, and the property market can be highly illiquid at times, making it difficult to realise gains (or losses). Furthermore, property investment carries risks such as non-paying tenants, maintenance costs, and the inability to sell fractional portions of the asset - you cannot sell only part of a house.

4.139 REITs that are listed on Bursa Malaysia offer a viable alternative for the small investor. With a relatively low capital outlay, an investor can gain exposure to the property market while benefiting from the expertise of professional fund managers who oversee real estate investments.

International investments

4.140 By focusing only on the Malaysian stock market, investors miss out approximately 99% of global investment opportunities.

4.141 International investment can provide diversification benefits, particularly during times of volatility in the local markets. However, there are some considerations to be kept in mind:

(a) Regulatory and Tax Implications – Investing overseas is subject to various tax laws and regulations that may create barriers, particularly for small investors;
(b) Currency management costs - Managing and hedging currency exchange risks can significantly erode potential returns;
(c) Access to information – Identifying attractive international investment opportunities require extensive research and analysis.

4.142 While the opportunity to invest internationally is currently limited; the Malaysia Capital Market Masterplan envisages enhanced opportunity through specialised international Schemes to be offered by Scheme Providers.

Financial derivative products

4.143 Another developing avenue for investment in Malaysia is the derivative markets. Derivatives offer the potential for high returns (or losses) without large capital outlays.

4.144 However, derivatives are complex financial instruments that require a thorough understanding. Most retail investors are not adequately equipped to analyse or manage derivative investments effectively,

Annuities

4.145 Annuities, typically offered by insurance companies, are contracts whereby the annuitant (the person who buys the annuity) receives a series of fixed payments at regular intervals (usually monthly) from the insurers until the annuitant's death. Each annuity payment consists of a portion of the purchase price plus accrued interest. Annuities may be purchased through a lump sum payment or structured as periodic contributions over the annuitant's working years. Payments commence upon his/her retirement or full payment of the purchase price.

4.146 While annuities serve as a post-retirement income stream, the PRS is more focused on accumulating savings for retirement. Upon reaching retirement age, an investor may use PRS funds to purchase an annuity that would provide him with regular income for specified period or until his death, depending on the terms of the annuity. The return is predetermined and contractual, ensuring certainty.

4.147 Despite their benefits, annuities have drawbacks. One of the drawbacks of the annuity is that the annuitant would have to bear the risk of the insurance companies as they are the ones guaranteeing the returns of the annuity. There is no direct link with market performance to the return of the product and the return will depend on the financial health of the insurer. Another drawback is the surrender of the annuity. If the annuitant cannot make the payments and is forced to surrender the policy, then the annuitant stands to lose a substantial portion of the paid contributions. Lastly, the commission rates may also be hefty for these products.

Investment-linked insurance products

4.148 An investment-linked insurance product combines life insurance coverage with investment elements. A portion of the premium is allocated towards life insurance protection, while the remaining amount is invested in selected investment funds. The policyholder has the flexibility to allocate between the insurance premiums towards protection and investment.

4.149 This is predominantly an insurance product and the cash value of this product can be derived after deducting various charges, including the unallocated premiums which are commissions to agents (maybe up to 160% of the premium payable over at least six years), insurance charges, policy fees and fund management fees. As a result, during the initial years of the policy, surrender or cash value is typically minimal, as most of the premium is used to cover these charges, Only after these costs are fully paid does a larger portion of the premium start contributing to the investment fund, allowing investment returns to build up or accumulate.

Equity crowdfunding (ECF) and peer-to-peer (P2P) financing

4.150 The ECF and P2P financing framework was introduced to provide alternative, market-based financing avenues for micro, small and medium enterprises (MSMEs). ECF is designed for MSMEs seeking early-stage funding, while P2P financing helps MSMEs raise working capital or funds for growth. These financing platforms serve as efficient electronic channels for underserved businesses to access capital while attracting a new generation of digitally savvy investors. The digital nature of these platforms enables lower costs, faster processing, and greater convenience for both businesses and investors.

Summary of investment Alternatives to the Schemes

4.151 **Table 4.6** provides a summary of the investment alternatives discussed above, and compares them to investment in the Schemes. (Note that the analysis is meant for the purpose of general comparison only. See also **Appendix 4.5**)

Table 4.6: Summary of comparisons among investment alternatives

Investment Type	Potential Return	Term of Investment	Capital Required	Liquidity	Investment Risk
UTS/PRS	Moderate	Medium to long	Small	High (normally within 10 days)	Lower (diversification benefits apply)
Direct share investments	Moderate to high	Medium to long*	Medium to large	High (depending on market conditions)	Moderate to high
Direct investment in property	Moderate to high	Long	Large	Low	Moderate to high
Financial derivative products	High	Short	Medium to large	Medium	Very high
Cash and fixed deposits	Low	Varies	Large	Low (penalties may apply)	Very low
International investments	Moderate to high	Medium to long*	Large	High	High (currency fluctuations also apply)**
Annuities	Moderate	Medium to long	Small	High	Moderate to high

Investment Type	Potential Return	Term of Investment	Capital Required	Liquidity	Investment Risk
Investment-linked insurance	Moderate	Medium to long	Small	Low	Low to moderate
ECF and P2P	Moderate to high	Medium to long	Small	High	Moderate to high

**excludes speculative investments*
***risk may vary depending on country and currency*

Investors Queries and Complaints

4.152 A Scheme Provider must establish, maintain and implement written policies and procedures to ensure that complaints from investors are handled in a timely and appropriate manner, and to ensure that these complaints are satisfactorily resolved. A register of complaints received and any action taken must be maintained by the Scheme Provider.

4.153 The success of any industry or business is best measured by the feedback received from Investors. Distributors and Consultants need to be in touch with their Investors to ensure that they are providing value in the products that they sell.

4.154 Major areas of complaint in the UTS and PRS industry are as follows:

(a) delays in the issue of unit certificates or statements confirming investment in the Schemes;
(b) delays in receipt of distribution payments;
(c) dissatisfaction with the investment performance of some Schemes;
(d) general discontent with the ‘after sales service’ provided by some Consultants; and
(e) dishonest Consultants or Consultants who use unsubstantiated performance figures to ‘hard sell’ the Schemes.

4.155 These areas of complaint need to be kept in mind when servicing investors. If Consultants and Distributors are able to improve the level of investor service, the entire UTS and PRS industry will benefit.

4.156 All salespeople encounter queries from investors - some of which may be beyond their control. It is, however, very important that all queries are address promptly. Consultants must have a thorough understanding of the Schemes they sell to respond confidently and effectively to Investor’s questions, comments or complaints. Consultants should also stay updated on new Schemes and procedures introduced by the Scheme Providers, as well as any new or revised regulations and directives issued by the SC and the FIMM.

4.157 It is sometimes difficult to assess when an investor’s query becomes a ‘complaint’. Distributors will normally be able to provide guidance to Consultants.

4.158 In most cases, the Consultant is the best person to initially handle a complaint. However, if an Investor remains dissatisfied despite the explanation provided, the Consultant must know what to do next. Distributors have complaint-handling policies that specify the designated personnel to whom complaints should be escalated.

4.159 If the investor is still not satisfied after following this process, a complaint can be directed to the FIMM and the SC. For complaints that involve monetary claims, investor must be advised that he or she may refer his or her case to FMOS.

4.160 Consultants should be aware that the FIMM takes investors' complaints seriously. A disciplinary committee has been established to investigate such complaints, and disciplinary action will be taken against any Consultant found to have breached the FIMM Code of Ethics.

4.160 Consultants must acknowledge that handling complaints is a natural part for their role and for this, they must manage complaints professionally, demonstrating to Investors that their concerns are valued and taken seriously.

Appendix 4.1
SC's Unit Trust Loan Financing Risk Disclosure Statement

Investing In A Unit Trust Fund With Borrowed Money Is Riskier Than Investing With Your Own Savings.

You should assess if loan financing is suitable for you in light of your objectives, attitude to risk and financial circumstances. You should be aware of the risks, which would include the following:

1. The higher the margin of the finance (that is, the amount of money you borrow for every Ringgit of your own money that you put in as a deposit of down payment), the greater the loss or gain on your investment.

2. You should assess whether you have the ability to service the repayments on the proposed loan. If your loan is a variable rate loan, and if interest rates rise, your total repayment amount will be increased.

3. If unit prices fall beyond a certain level, you may be asked to provide additional acceptable collateral (where units are used as collateral) or pay additional amounts on top of your normal instalments. If you fail to comply within the time prescribed, your units may be sold towards the settlement of your loan.

4. Returns on unit trusts are not guaranteed and may not be earned evenly over time. This means that there may be some years where returns are high and other years where losses are experienced instead. Whether you eventually realise a gain or loss may be affected by the timing of the sale of your units. The value of units may fall just when you want your money back, even though the investment may have done well in the past.

This brief statement cannot disclose all the risks and other aspects of loan financing. You should, therefore, carefully study the terms and conditions before you decide to take a loan. If you are in doubt in respect of any aspect of this Risk Disclosure Statement, or the terms of the loan financing, you should consult the institution offering the loan.

Acknowledgement of Receipt of Risk Disclosure Statement
I acknowledge that I have received a copy of this Unit Trust Loan Financing Risk Disclosure Statement and understand its contents.

Signature:

Full Name: ______________________________

Date: ______________________________

Appendix 4.2

Basic Savings and Amount Allowed to be Transferred into Members Investment Scheme (MIS) by EPF Members who are below 55 Years Old

(1) Basic savings is a pre-determined amount set according to age in Account 1 to enable EPF members achieve a minimum savings of RM240,000 this when they reach age 55. The implementation of the basic savings is to ensure that the members have sufficient savings at a minimum amount of RM1,000 per month when they retire in order to support their basic retirement needs for 20 years from age 55 to 75, in line with Malaysians' life expectancy. The latest revision in this quantum has been implemented starting 1 January 2019.

(2) The amount of basic savings required for Account 1 according to the EPF member's age is set out in the following table:

Age	Basic savings	Age	Basic savings
18	2,000	37	68,000
19	4,000	38	74,000
20	6,000	39	80,000
21	8,000	40	86,000
22	10,000	41	93,000
23	13,000	42	101,000
24	15,000	43	108,000
25	18,000	44	116,000
26	21,000	45	125,000
27	24,000	46	134,000
28	27,000	47	144,000
29	31,000	48	154,000
30	35,000	49	164,000
31	39,000	50	175,000
32	43,000	51	187,000
33	47,000	52	199,000
34	52,000	53	212,000
35	57,000	54	226,000
36	62,000	55	240,000

Source: "Panduan kepada Ahli: Kelayakan Pelaburan di bawah Skim Pengeluaran Pelaburan Ahli", Kumpulan Wang Simpanan Pekerja (March 2020)

(3) The amount in excess of the basic savings can be invested in the approved unit trust funds managed by Fund Management Institution appointed by EPF provided the amount to be transferred is not more than 30% of the excess savings in Account 1 after deducting the amount of Basic Savings as prescribed by the EPF (subject to a minimum of RM1,000). The following table provides three (3) scenarios to show EPF member's eligibility and ineligibility to invest in MIS.

Example:

EPF Member	Age	Savings in Account1 (RM)	Basic Savings (RM)	Calculation: (Savings in Account1 - Basic Savings) x 30%	EPF Member's Eligibility
A	22	4,000	10,000	-	Member is **not eligible**, savings in Account 1 is less than the new Basic Savings
B	22	11,000	10,000	11,000 – 10,000 x 30% = RM300	Member is **not eligible**, minimum eligibility amount is RM1,000
C	25	24,000	18,000	24,000 – 18,000 x 30% = RM1,800	Member is **eligible**, minimum eligibility amount is RM1,000 and maximum amount is RM1,800

Important Note: Please be advised to check the EPF website for the latest information on **Basic Savings** and the **Amount Allowed to be Transferred into the Members Investment Scheme (MIS)** by EPF members below 55 years old.

Appendix 4.3

A Sample of Malaysian Tax Voucher

ABC Trustee Bhd
Trustee of XYZ Growth Fund
Tax Voucher

[Unit holder name & address]

					Account No.	12345678	
Warrant No.	No. of units	Type of distribution	Year ended	Entitlement date	Distribution No.	Gross distribution	Payment date
00001	8,000	Interim 1	30/7/20XX	14/8/20XX	55	0.000560	16/8/20XX

Taxable income (RM) (1)	Tax (RM)		Non allowable expenses (RM) -(4)	Non taxable income (RM) +(5)	Distribution equalisation (RM) +(6)	Net distribution payable (RM) =(7)
	Malaysian -(2)	Foreign -(3)				
40.00	11.20	0.00	25.00	302.50	22.54	328.84

We hereby certify that Malaysian Income Tax deducted as above (where applicable) has been or will be accounted for by us to the Director-General of Inland Revenue Malaysia. Please retain this voucher for submission to the Tax Authorities.

Yours faithfully
ABC Trustee Bhd
Trustee of XYZ Growth Fund

Explanatory Notes:

(1) Taxable income
The amount of income received that is taxable

(2) Tax – Malaysian
Amount of Malaysian tax payable on the taxable income

(3) Tax – Foreign
Amount of Foreign tax already deducted at country of source

(4) Non-allowable expenses
These are tax expenses less tax allowable expenses, where:
Total expenses include Management fee, Trustee fee, Audit fee, Tax Advisory fee, Bank charges printing cost, Custodial charges, incidental and miscellaneous fee, etc. as stipulated in the prospectus

Tax allowable expenses include expenses wholly and exclusively incurred in the production of gross income that are allowable as deductions under Section 33(1) of the

Income Tax Act (ITA). In addition, Section 63B of the ITA also provides for tax deduction in respect of managers' remuneration, expenses on maintenance of the register of unit holders, secretarial, audit and accounting fee, telephone charges, printing and stationery costs and postages based on a formula subject to a minimum 10% and maximum of 25% of the expenses.

(5) Non-taxable income
The amount of income that is not subject to tax

(6) Distribution equalisation
A portion of money set aside from investments to equalise unit holders' distribution income. Where there are many new investors, the distribution amount may reduce which is unfair to earlier investors. In order to ensure a more equitable income distribution, a portion of the investment is set aside to ensure a flat rate of distribution income irrespective of which point of time a unit holder becomes an investor.

Example:

$$Undistributed\ income = RM100{,}000$$

$$Net\ Asset\ Value\ of\ fund = RM15{,}000{,}000$$

$$\boldsymbol{Distribution\ equalisation = \frac{Undistributed\ income}{Net\ Asset\ Value\ of\ fund}}$$

$$\boldsymbol{= \frac{RM100,000}{RM15,000,000} = 0.67\ sen/unit}$$

(7) Net distribution payable
The net amount received by the unit holder as distribution

APPENDIX 4.4

EFFECT OF INFLATION, TAXATION AND INVESTMENT COSTS ON INVESTMENT RETURNS

(1) The impact of inflation, tax and investment costs on investment returns needs to be carefully considered when making investment decisions. Many investors overlook these factors, only to realise later that their actual investment returns and accumulated wealth are significantly lower than expected.

(2) Most believe they understand inflation, yet many investors let themselves become a victim of its insidious impact on investment returns and wealth. Inflation, to most people, simply means price increases. But to the investor, it has far wider ramifications.

(3) Investors need to preserve the purchasing power of their original investments, and be earning a rate of return from those investments that beats the inflation rate. In periods of high inflation, the purchasing power of financial assets decreases. RM100,000 today simply cannot buy what it did ten years ago. The reason: inflation. By the same token, an investor, who thinks he or she needs to save a particular sum for the future, needs to think clearly whether that amount will be adequate in terms of prices and costs in, say, 15 years' time.

(4) Taxation is another major factor that reduces net investment returns. Again, it is no secret that all income is assessed for tax, yet many overlook the taxation implications of the investments they choose. In Malaysia, there are different tax treatments for different types of investments. However, when planning to accumulate a specified amount of capital in the future, the current and future tax implications must be considered.

(5) Tax acts as an erosion of the returns achieved from investment and its impact needs to be clearly recognised.

Measuring the Impact of Taxation and Inflation on Income Returns

(6) Table 1 below illustrates the combined effect of taxes and inflation on investment income.

(7) Assume that the various rates of tax shown in column 1 are applied to investment income received by an investor, and that the average inflation rate is 5% per annum (p.a.). For the range of actual investment returns shown in column 2, the return after taking into account tax and inflation is shown in column 5.

Table 1: Impact of taxation and inflation on investment income

(1) Tax rate* (% p.a.)	(2) Investment return (% p.a.)	(3) Return after tax (% p.a.)	(4) Inflation rate* (% p.a.)	(5) Return after tax and inflation (% p.a.)
10	5	4.5	5	-0.5
	10	9.0		+4.0

(1) Tax rate* (% p.a.)	(2) Investment return (% p.a.)	(3) Return after tax (% p.a.)	(4) Inflation rate* (% p.a.)	(5) Return after tax and inflation (% p.a.)
	15	13.5		+8.5
	5	4.0		-1.0
20	10	8.0	5	+3.0
	15	12.0		+7.0
	5	3.5		-1.5
30	10	7.0	5	+2.0
	15	10.5		+5.5

** Note: These rates are assumed for illustrative purposes. Refer to actual rates of income tax for a particular year of assessment and to current forecasts of inflation. The table ignores the effect of inflation on the investor's capital from which the income return is derived.*

(8) The impact of both tax and inflation on income returns is significant, especially at higher tax rates. An investment return of 10% p.a. with a 10% tax rate and 5% inflation rate reduces an investor's return after tax and inflation to 4% p.a. At a 30% tax rate, the return after tax and inflation falls to a negligible 2% pa. Clearly, inflation and tax have significant implications for investors, Consultants and Financial Planners.

(9) The range of return after tax and inflation showed in the above table highlights the desirability of designing an investment portfolio that includes investments that are expected to produce capital growth over and above the rate of inflation. If an investor's portfolio can be structured to minimise the effects of both taxation and inflation, then the investor should be in a much better position to protect existing capital and to build real wealth over time.

The Impact of Inflation on Investment Objectives

(10) All long-term investment portfolios should, as far as possible, be constructed with the objective of keeping pace with inflation, and to provide for capital growth to increase the real value of the portfolio. But how much will be required to meet a particular financial objective in, say, 15 years' time?

(11) **Table 2** below highlights the way in which inflation needs to be considered when making investment decisions. It shows the amount required to be accumulated at the end of a period to maintain the real value of RM100,000 under different inflation expectations.

Table 2: Impact of inflation on target accumulated amount

End of Year	Amount required to be accumulated by year end (in RM) with the respective annual inflation rate		
	2.0% p.a.	3.5% p.a.	5.0% p.a.
5	110,408	118,768	127,628
10	121,899	141,059	162,889
15	134,586	167,534	207,892
20	148,594	198,978	265,329
25	164,060	236,324	338,635

(12) For example, assuming that there is an inflation rate of 5% p.a. for 20 years, the purchase cost of an apartment currently valued at RM100,000 will be RM265,329 (assuming that apartment prices change at the same rate as general inflation). For an investor with an investment portfolio currently valued at RM100,000 to be able to purchase the apartment in 20 years' time, the purchasing power of the portfolio will need to grow at a rate of at least 5% p.as (ignoring taxes). Even if the portfolio returns 5% p.a. over the period, the investor is not better off. To increase wealth, the investor requires an investment return in excess of the inflation rate.

Rule of 72

(13) There is a simple rule that can be used in determining and measuring the impact of inflation and the result of the compounding of investment returns - the 'rule of 72'. The formula for rule 72 is as follows:

$$Rule\ of\ 72 = \frac{72}{Rate\ of\ Inflation\ or\ Rate\ of\ Return}$$

(14) 'Rule of 72' helps us to provide an investor with an estimate of, for example:
(i) the loss in real value of a given amount of funds with a particular inflation rate
(ii) how long it will take to double a given sum of money invested at a given rate of return.

(15) The following examples provide an illustration for the application of rule of 72.

Example 1:
An Investor has RM150,000 and wants an indication of how long it would take to halve its real value with an assumed inflation rate of 3.5% p.a.

$$Rule\ of\ 72 = \frac{72}{Inflation\ rate} = \frac{72}{3.5} = 20.6\ years\ (\approx 20\ years\ 7\ months)$$

Example 2:
An Investor has RM100,000 and wants to know how long it would take to double his or her money at an assumed investment return of 7.5% p.a.

$$Rule\ of\ 72 = \frac{72}{Rate\ of\ investment\ return} = \frac{72}{7.5} = 9.6\ years\ (\approx 9\ years\ 7\ months)$$

(16) Table 3 and Table 4 below (compiled using the Rule of 72) demonstrate the effects of inflation on the real value of money, and how long it will take to double the value of an investment.

Table 3: How long will it take to halve the real value of money?

Assumed inflation rate (% p.a)	No. of years to halve real value
2.0	36.0
2.5	28.8
3.0	24.0
3.5	20.6
4.0	18.0
4.5	16.0
5.0	14.4

Table 4: How long will it take to double the value of an investment?

Assumed rate of return (% p.a)	No. of years to double a given sum
5.0	14.4
6.0	12.0
7.0	10.3
8.0	9.0
9.0	8.0
10.0	7.2

(17) Table 3 clearly shows that the higher the inflation rate, the real value of money is halved quicker while Table 4 indicates the higher the rate of return, the number years to double an investment sum is reduced.

The Effect of Charges on Investment Returns

(18) Assume that an investor has RM100,000 for investment in UTS, and that the Investor is able to invest for a period of 20 years. The investor is offered a choice of three UTS that will meet his or her requirements in terms of risk and return. Each UTS has a different fee structure:

(i) UTS 1 has an initial entry cost of RM8,000 with an annual management fee of 1% p.a.;
(ii) UTS 2 has an initial entry cost of RM5,000 with an annual management fee of 1.5% p.a.; and
(iii) UTS 3 has no initial entry cost with an annual management fee of 2% p.a.

Assuming similar prospective investment returns, which UTS should be chosen?

(19) The impact on the investment returns over the period due to the differences in charges is quite striking:

	UTS 1	UTS 2	UTS 3
Investment	100,000	100,000	100,000
Less: Initial entry cost	8,000	5,000	0
'Working money'	**92,000**	**95,000**	**100,000**

End of Year	Value end of year		
	UTS 1	UTS 2	UTS 3
1	100,374	103,123	108,000
5	142,217	143,184	146,933
10	219,845	215,806	215,892
15	339,845	325,261	317,217
20	525,346	490,232	466,096

(20) Between UTS 1 and UTS 3, there is a RM59,250 difference in the final amount of capital accumulated over the 20-year period. Even though the initial cost for UTS 1 is higher than that of UTS 3, the final amount of capital accumulated by UTS 1 over the 20-year period is higher than that of UTS 3 because the annual management fee for UTS 1 is smaller.

(21) In the above example, it is easy to see which UTS an investor is likely to choose. In practice, the decision is not always as simple. For example, the table assumes that all three UTS will generate exactly the same return.

(22) Scheme Providers investing in the same share market will often produce different returns due to many factors, including investment styles. Studies overseas have shown, too, that it is not always the case that the higher the fees, the better the performance - in fact, the opposite may apply.

(23) Over time, and taking into consideration the compounding effect of charges on returns, there can be a significant impact on investment performance. It is, therefore, important for Consultants and financial planners to ensure that allowance is made for the costs of investing when estimating investment returns. Together with the impact of inflation and tax, investment costs are another drain on investment returns sought by investors to achieve financial goals.

Appendix 4.5
Six Ways to Turn Savings into Investments

Type of Investments	Pros	Cons
Savings Account	1. Easy to open and maintain 2. Minimum requirements and low risk 3. Flexible access to cash	1. Ease of cash withdrawals can disrupt savings discipline 2. Relatively low interest rate
Fixed Deposits	1. Higher interest rate than savings account 2. Restricts impulse purchases	1. Interest may at times be outpaced by inflation 2. Less flexible withdrawals
Property	1. A good ‘forced-savings’ plan 2. A good hedge against inflation 3. Can bring good returns in ‘boom’ economy	1. High initial capital needed (down payment and loan qualification) 2. Long-term, inflexible mortgage repayment scheme 3. Not readily converted to cash
Life Insurance	1. A useful saving-cum-protection vehicle 2. As many policies have a penalty for premature break, it acts as a mechanism to promote saving 3. Proven as an effective “forced-savings” plan	1. Relatively lower returns compared with other long-term investment vehicles 2. Lack of flexibility
Unit Trusts	1. Suitable investment vehicle for regular savers 2. Starting amounts are reasonable 3. Investments are easy to build up over time 4. Benefits derived from dollar-cost averaging 5. Provides a well-balanced investment portfolio that investors do not need to manage themselves 6. Units can be sold when the price is right at any time	1. Affected by ups and downs of share market or other markets that the funds invested in
Share Market	1. More exciting than operating a current account	1. Require a large initial capital outlay

Type of Investments	Pros	Cons
	2. Can generate high returns if timing is right	Not suitable for small, regular investments 2. Requires extensive market information and time to manage their investments successfully

**From Wise Moves to Retirement, SBB Mutual Bhd*

PRACTICE QUESTIONS

Question 1

What are the factors that Consultants must consider when rendering investment advice to investors?

(i) Personal circumstances of the investor
(ii) Risk tolerance of the investor
(iii) Market outlook
(iv) Investment recommendation of the Scheme Provider

(A) (i) and (ii) only

(B) (i), (ii) and (iii) only

(C) (i), (ii) and (iv) only

(D) (iii) and (iv) only

Answer: (B)

Question 2

What is the main purpose of obtaining information relating to an investor's investment objectives during the personal advice process?

(A) To ascertain the investor's appreciation of the potential returns of the Schemes

(B) To ascertain the investor's risk profile and needs

(C) To ascertain a suitable Scheme Provider for the investor

(D) To ascertain the investor's financial planning needs

Answer: (B)

Question 3

The followings apply to both UTS and PRS:

(i) Purchase of units
(ii) Sale of units
(iii) Financing purchase of units
(iv) Transfer of units

(A) (i) and (ii) only

(B) (i), (ii) and (iii) only

(C) (i), (ii) and (iv) only

(D) All of the above

Answer: (C)

CHAPTER 5

CODE OF ETHICS

Learning Objectives

This chapter focuses on the importance of maintaining high standards of professionalism when performing your role as a Consultant, as well as to introduce you to the FIMM Code of Ethics.

At the end of this chapter, you should be able to understand and describe:

- the principles of maintaining high ethical standards of conduct and the importance of compliance;
- how adherence to Code of Ethics facilitates investors' protection;
- the core principles of FIMM Code of Ethics; and
- Consultants obligations under the Code of Ethics.

Competency Level

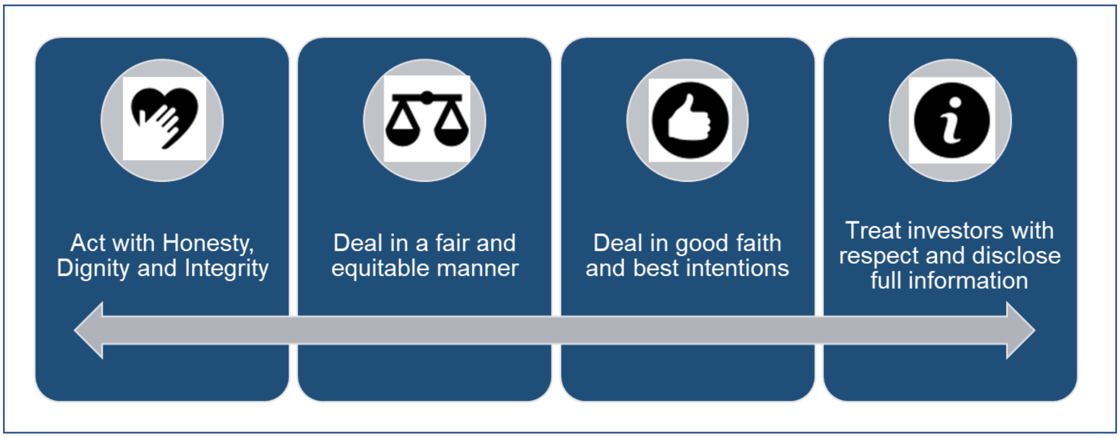
1. Core Competency – CC02 Ethics and Integrity (Level 3)

Basic principles

5.01 The UTS and PRS industry are important to the Malaysian economy. The industry mobilises the savings of retail investors by funneling these savings into areas where capital is required. At the same time, these investors are provided with an avenue to obtain distribution and make capital gain from their investments and to save for retirement.

5.02 Investors invest in the Schemes to meet their financial goals and retirement needs. Thus, it is essential that all parties involved in the activities of marketing and distribution of the Schemes to conduct themselves in an ethical and professional manner.

Diagram 5.1: Principles of ethics



What is "Compliance"?

5.03 Compliance is important to ensure proper management and conduct of Distributors and Consultants. It is the discipline and act of complying with applicable laws, rules and regulations, codes of conduct, internal policies and procedures.

5.04 The SC, a regulatory body entrusted with the responsibility of regulating and developing the Malaysian capital market, has been carrying out its role with the objective of protecting the investors. For this, the SC has incorporated several requirements that emphasises on the importance of compliance, among others, by requiring Distributors to put in place a compliance function where the main role is to ensure compliance with the applicable laws, regulations etc.

5.05 Consultants should be aware that the obligation to comply with the applicable laws, rules, requirements etc. is not the sole responsibility of compliance personnel. Compliance is a culture that needs to be observed by everyone including the Consultants, particularly in ensuring that investors are protected and fairly treated.

5.06 Consultants must work closely with the compliance personnel responsible for the compliance function of their Distributors and give their full cooperation especially in fulfilling their obligations in complying with the relevant requirements. This will ensure that Consultants are equipped with the necessary tools, such as checklists, effective and relevant training courses that will assist them in meeting their obligations to every investor while ensuring compliance with the applicable requirements.

Compliance as a Risk Management Tool

5.07 Distributors and Consultants must be aware of the importance of compliance and how it is linked to management of risks in the business. Most businesses and individuals will have in place the necessary insurance coverage to protect themselves from specific events such as fire and other circumstances that may result in financial losses. The decision to have such insurance coverage will usually be made based on an assessment done on potential risks that may be faced by businesses or individuals.

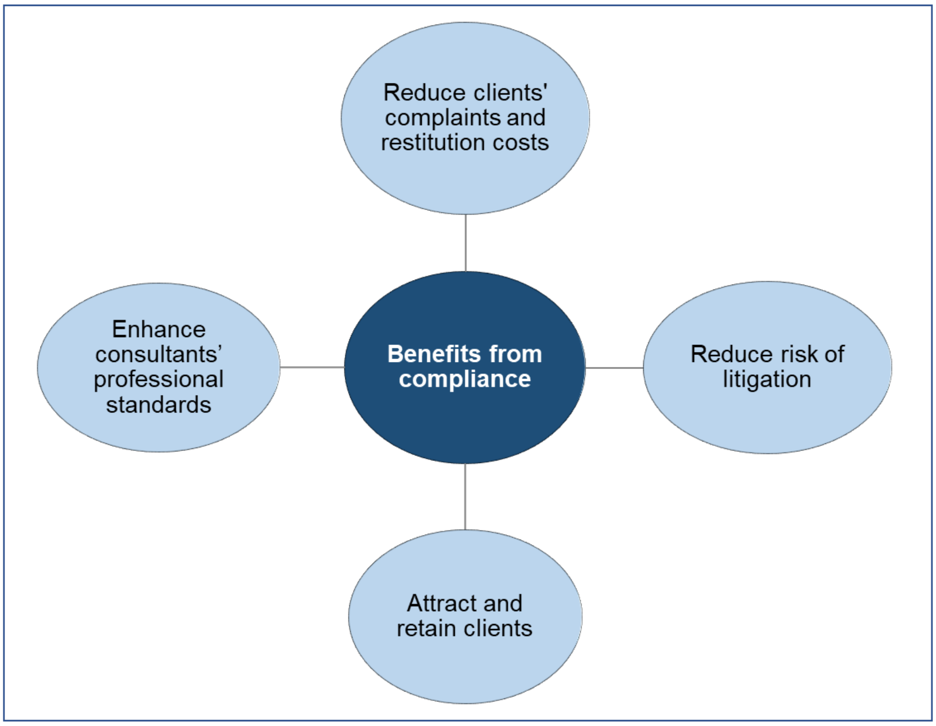
5.08 Ensuring compliance is therefore a form of control or similar to having 'insurance coverage' against the risks and consequences of breaching the applicable regulatory requirements or rules. An analogy can be made by comparing this with a car manufacturer that aims to achieve a steady production of cars (e.g. its output) at a reasonable cost with ideally no defects through the introduction of quality control disciplines. Similarly, the ‘output’ in the UTS and PRS industry is ensuring that all obligations of the business are met, including compliance, which helps to minimise or eliminate potentially severe consequence of breaches of legal and obligatory requirements.

5.09 A strong compliance culture assists the UTS Consultants in carrying out their functions, for example in:

(a) reducing client complaints and the costs of restitution (note: 'costs' include time in resolving complaints and putting things right);
(b) reducing risk of litigation by clients (with all its associated penalties and costs);
(c) attracting clients and retaining clients by creating trust and confidence in their dealing with the clients; and
(d) in keeping Consultants up to date with current market developments and enhancing the Consultants’ professional standards by attending compliance training.

5.10 **Diagram 5.2** summarises the benefits obtained by Consultants from compliance with the applicable requirements.

Diagram 5.2: Benefits from compliance



What Do We Mean by "Ethics"?

5.11 Like compliance, the term 'ethics' has become increasingly important within the financial services industry over the years.

5.12 'Ethics' represents a system of moral principles by which the actions of Distributors and Consultants may be judged good or bad, or right or wrong. Ethics is usually a matter of personal responsibility, integrity and conscience. In the absence of continuous monitoring of their actions by others such as a regulator, they must be mindful of their own conduct and action to keep themselves in check. Continuous monitoring will increase compliance cost and will likely impact business processes due to overly bureaucratic systems. The requirements for ethical conduct prescribed through regulatory instruments issued by FIMM and the SC, provides guidance to Distributors and Consultants to operate without contravening any laws and regulations.

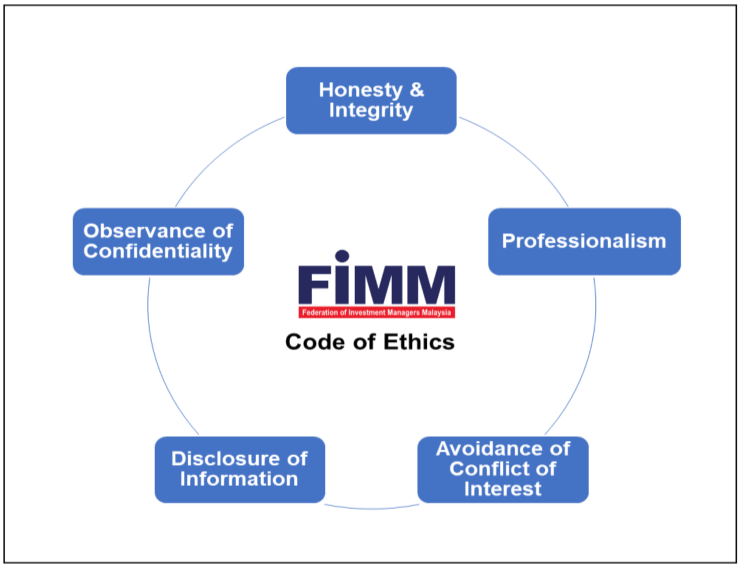
FIMM's Code of Ethics for the UTS and PRS Industry

5.13 FIMM's Code of Ethics ("FIMM's Code") provides for the ethical standards and professional conduct of Distributors and Consultants:

(a) in marketing and distribution of UTS and PRS; and
(b) in relation to any activities that may adversely impact the UTS and PRS industry.

5.14 The FIMM's Code sets out five (5) core principles as illustrated in **Diagram 5.3** below:

Diagram 5.3: Core principles of FIMM's Code of Conduct



5.15 Each core principle stipulates the required and prohibited conduct by Distributors and Consultants. Distributors and Consultants must adhere to the five (5) core principles of the FIMM's Code in order to:

(a) Uphold ethical standards and professional conduct in marketing and distribution of UTS and PRS; and
(b) Instill public confidence in the industry.

5.16 The FIMM's Code augments the ethics and conduct requirements set out in various guidelines issued by the SC, as listed under Chapter 3 (SC Guidelines), in regulating the UTS and PRS industry. While there are overlapping requirements between the FIMM's Code and SC Guidelines, Distributors and Consultants are expected to be familiar with and comply to the applicable requirements.

5.17 The FIMM's Code is available at FIMM's website at the following link: https://www.fimm.com.my/home/circulars-guidelines/code-of-ethics/

Core Principles of FIMM's Code

5.18 The following paragraphs describe the key elements of the FIMM's Code that are applicable to Consultants and Distributors.

Core Principle 1: Honesty and Integrity

5.19 Both Distributors and Consultants are required to:

(a) be honest and act with integrity;
(b) act in the best interest of investors;
(c) deal with investors in good faith and treat investors fairly; and
(d) uphold and protect the reputation of the industry.

5.20 This principle essentially calls for Distributors and Consultants to place the client's interests ahead of their own.

Prohibited conduct

5.21 Distributors and Consultants are prohibited from engaging in dishonest behaviour and any act that adversely affects their integrity, including but not limited to, the following:

(a) misappropriating investors' funds,
(b) commit forgery including forging signature of an Investor or any other person;
(c) falsifying documents;
(d) making false or exaggerated statements;
(e) using unauthorised designations, titles or qualifications; and
(f) dealing in any Schemes or investment product, amongst others, those that are not authorised, licensed or recognised by the securities laws.

Core Principle 2: Professionalism

5.22 Distributors and Consultants are expected to have high standards of professionalism and shall exercise due care, skill and diligence when dealing with Investors.

5.23 A Distributor and Consultant shall provide prompt, efficient and continuous service to investors, including treating investors with respect.

5.24 In addition to being knowledgeable and competent in all aspects of his or her role, Consultants are also required to observe additional requirements which include representing only one Principal/Distributor for UTS and/or PRS respectively at any one time, marketing and distributing only UTS or PRS that are of his or her Distributor. He or she must show proof of his or her registration with FIMM to Investors in the manner specified by FIMM when carrying out the marketing and distribution of Schemes.

Prohibited conduct

5.25 Distributors and Consultants are prohibited, amongst others, from undertaking the process of recruiting Consultants in an unethical manner at all times. They must not:

(a) engage in aggressive and offensive sales practices,
(b) accept cash from investors;
(c) allow any investor to transfer money or issue a cheque to any banking account other than the Distributor's account;
(d) execute transactions based on pre-signed or pre-thumbprint forms;
(e) churning by executing excessive redemption and purchase of Schemes using the same investment proceeds into one or more funds;
(f) make negative or unwarranted statement that may actually or likely to adversely affect the reputation of the industry and its stakeholders including FIMM and the SC;
(g) encourage investors to invest in UTS or PRS through loan financing etc.; and

(h) use advertisement and promotional materials which do not comply with the requirements of the SC Guidelines.

5.26 Consultants are also prohibited, amongst others, from using the identity of other Consultants or any other person in dealing with investors, allocating sales to other Consultants, making investment decision on behalf of the investors, etc.

Core Principle 3: Avoidance of conflict of interest

5.27 Distributors and Consultants must avoid any conflict of interest in their dealings with an investor. In cases where conflict of interest cannot be avoided, the Distributors and Consultants must disclose such conflict, be it real or potential, to the Investor in writing promptly. Distributors and Consultants must also ensure that priority is always given to the investors' interest.

5.28 In addition to the above, Distributors are required to put in place systems, policies and procedures to effectively address conflict of interest situations.

Prohibited conduct

5.29 Distributors and Consultants are prohibited from performing any switching transaction for an investor to generate sales commission or gain other benefits which are not in the best interest of the investors.

Core Principle 4: Disclosure of information

5.30 Distributors and Consultants are required to provide accurate and adequate information about the Schemes to the investors in a timely manner to assist the investors in making an informed investment decision. They must also provide clear explanation about the features of the Schemes that can help investors to understand the product.

Prohibited conduct

5.31 Distributors and Consultants are prohibited from:

(a) providing any forecast of any Scheme's performance;
(b) making statements on yields or returns without any objective and reasonable basis;
(c) concealing any information about a Scheme when comparing it with other Schemes; and
(d) providing information on matters which they are not competent to deal with or knowledgeable about.

Core Principle 5: Observance of confidentiality

5.32 Distributors and Consultants must safeguard investors' personal and financial information unless a written consent for disclosure of such information has been obtained from the investors or where disclosure is required to be made pursuant to any relevant laws and legal process.

Prohibited conduct

5.33 Distributors and Consultants are prohibited, amongst others, from disseminating or exchanging investors' personal and financial information with other Distributors, Consultants or any other party or requesting or procuring such information from them as prescribed by the Personal Data Protection Act (PDPA).

Non-Compliance with the FIMM Code

5.34 FIMM may take disciplinary or other appropriate action against Distributors and Consultants who fail to comply with any provision of the FIMM's Code. They shall also be regarded as having committed a misconduct if they:

(a) attempt to commit a misconduct under the FIMM's Code;
(b) commit an act preparatory to or in furtherance of the commission of a misconduct under this Code; or
(c) abets the commission of a misconduct under the FIMM's Code, where they:
    (i) instigate or instruct anyone to commit a misconduct;
    (ii) engage with anyone in any conspiracy to commit a misconduct; or
    (iii) intentionally aids the commission of a misconduct.

5.35 Any personnel or Consultants of Distributors must immediately report to FIMM if they have reasons to believe that Distributors have failed to comply with any rules, laws, or requirements. The identity of this personnel or Consultant will be kept confidential, to the extent permissible by the law.

5.36 Distributors or Consultants who are found to have committed a misconduct will be liable to any sanctions provided under Chapter 6 of the FIMM's Consolidated Rules (FCR). Chapter 6 of the FCR also sets out FIMM's investigation and disciplinary proceedings that apply to Distributors and Consultants.

PRACTICE QUESTIONS

Question 1

Consultants who breach the provisions of the FIMM's Code of Ethics will face actions, including

(i) imprisonment
(ii) a public reprimand
(iii) a revocation of registration with the Securities Commission Malaysia
(iv) a suspension of registration with the Federation of Investment Managers Malaysia

(A) (i) and (iii) only

(B) (ii) and (iv) only

(C) (i), (ii) and (iv) only

(D) (ii), (iii) and (iv) only

Answer: (B)

Question 2

Each core principle of the FIMM's Code of Ethics aims to ____________

(i) instill public confidence in the industry
(ii) augment the ethics and conduct requirements set out in the SC's guidelines
(iii) uphold Consultants' and Distributors' ethical standards and professional conduct in marketing and distribution of Schemes
(iv) remind Consultants and Distributors that FIMM can take action against them for misconduct

(A) (i) and (ii) only

(B) (i), (ii) and (iii) only

(C) (i), (iii) and (iv) only

(D) (iii) and (iv) only

Answer: (B)

Question 3

The omission of a material fact when dealing with a unit holder or a PRS member is covered under the principle of ____________________

(A) observance of confidentiality

(B) professionalism

(C) honesty and integrity

(D) disclosure of information

Answer: (D)

CHAPTER 6

PERSONAL FINANCIAL PLANNING

Learning Objectives

This chapter aims to introduce you to the broad concepts of personal financial planning and how this can be applied when providing advice to investors.

At the end of this chapter, you should be able to understand and describe:

- what personal financial planning means
- the areas and steps in personal financial planning
- the qualification and skills required of a financial planner
- the difference between personal financial planning and investment selling
- Consultants' role in investment planning
- the difference between Financial Planner and Consultants
- initiatives to enhance the role of financial planners in Malaysia

INDUSTRY COMPETENCY FRAMEWORK

Competency Level

1. Core Competency – CC01 Customer Focus (Level 3)
2. Foundational Competency (Product) – FOP03 Capital Market Products (Level 2)
3. Functional Competency (Technical) – FUT02 Client Advisory (Investment) (Level 3)
4. Functional Competency (Process) –
   i. FUP15 Sales and Marketing (Level 3)
   ii. FUP14 Know Your Client (Level 1)
   iii. FUP07 Develop Financial Plan (Level 2)

Overview

6.01 In certain parts of the world, the role of the financial planner has become highly significant. Many people appoint a financial planner in the same way that they have an accountant, a tax adviser, a stockbroker or a lawyer. Personal financial planning has become a field of practice in its own right.

6.02 Financial planning is defined under Part 2 of Schedule 2 of the CMSA as analysing the financial circumstances of another person and providing a plan to meet that person's financial needs and objectives, including any investment plan in securities, whether or not a fee is charged.

6.03 Financial planning is the process of meeting one's life goals within a certain time frame through the proper management of the person' present and future finances. These goals may include buying a house, savings for children's education, savings for a comfortable retirement lifestyle, etc. The financial planner will take a "big picture" view of the person's financial position and recommend actions that he or she needs to take to achieve his life goals. Such advice may include budgeting, higher rate of savings, tax planning, wealth creation and preservation, realignment of the person's investments, risk management and retirement planning.

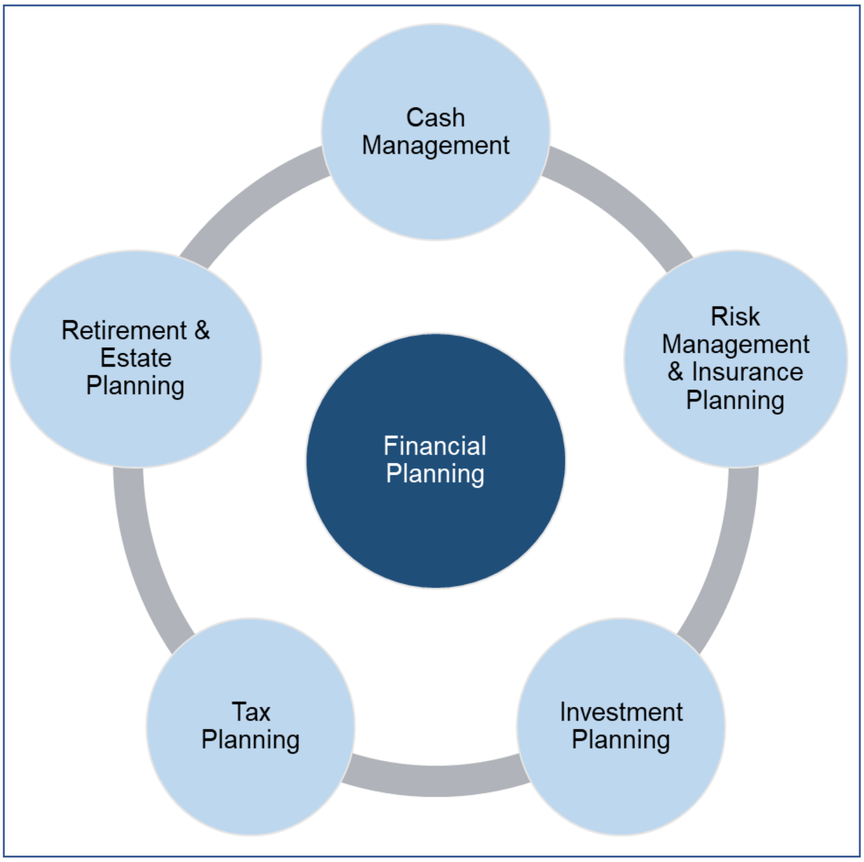
6.04 The UTS and PRS industry in Malaysia is at a stage where Consultants undertake to understand the financial position and investment objectives of a client and analyse the best UTS and PRS investment suitable for the client. This investment analysis complements the development of the financial planning industry. Similarly, the UTS and PRS industry has played a major role in the development of the financial planning industry in other countries.

6.05 This Chapter introduces the concept of financial planning, areas for financial planning, processes involved in financial planning, role of a financial planner and the qualification and skills required of a financial planner. The discussion is not meant to be exhaustive but should serve as a broad overview of what 'personal financial planning' means.

What is 'Personal Financial Planning'?

6.06 Personal financial planning is a broad concept that has a client's financial needs and objectives at its core. It covers the main aspects of an individual's financial life as depicted in **Diagram 6.1**:

Diagram 6.1: Aspects of financial planning



6.07 Most individuals need to plan. An effective personal financial plan will help:

(a) provide a roadmap of a client's objectives for the medium and long term;
(b) improve or maintain present - as well as future – lifestyle;
(c) protect/minimise the impact on a client's assets from uncertainties such as the effects of market volatility and inflation; and
(d) ensure an adequate income, when it is needed, for example, post-retirement.

6.08 It is necessary to appreciate several features of personal financial planning to gain a full understanding of the concept. Personal financial planning:

(a) is a process. It is not a product. It is a service that results from listening, consultation and interactive financial assessment;
(b) is comprehensive. All aspects of a client's needs and requirements need to be fully explored and explained;
(c) seeks maximum utility. Utility in this context is equivalent to the economist's term for usefulness. This means that a personal financial plan seeks to produce concrete and tangible results that provide client satisfaction;
(d) recognises the individual. Each of us has a different set of personal circumstances, investment objectives, a different risk appetite, and so on. For this, financial plans are customised based on the individual's circumstances. It is highly unlikely for a financial planner to develop identical financial plans for different individuals; and
(e) acknowledges the cycles of life. A personal financial plan is not a static document and needs to be updated on a regular basis. A client's needs,

objectives and views change over time, so the plan should be updated and the investment portfolio (developed as part of the plan) assessed to ensure that it continues to meet the client's needs and requirements.

Areas in Financial Planning

6.09 Personal financial planning is an integrated process whereby a client is assisted with the main areas depicted in **Diagram 6.1**. The following paragraphs provide further details on matters relating to these connected areas that need to be taken into consideration in the development of a financial plan.

Cash management

6.10 Cash management or budgeting is very important as it allows the individual to analyse his or her total income against his expenditure, identify his essential and non-essential expenditure and the amount he can set aside for savings. If he or she wishes to save more, he or she can reduce his or her non-essential expenditure or defer less important expenditure.

Risk management and insurance planning

6.11 Risk Management and Insurance Planning is the process of identifying the source and extent of an individual's risk of financial, physical and personal loss, and developing strategies to manage exposure to risk and minimise the probability and amount of potential loss.

Investment planning

6.12 Investment planning is the process of determining how to invest current assets and future savings based on an individual's short and long-term financial goals, current financial situation and risk tolerance. A good investment plan identifies financial goals and assigns a monetary value and time frame to those goals. After the goals, monetary value and time frame have been determined, appropriate financial instruments are purchased to meet those goals. Most investment plans in Malaysia are commonly made to meet retirement, children's education and wealth accumulation goals.

Tax planning

6.13 Income tax planning may be defined as the development and implementation of appropriate strategies to reduce, plan the timing of, or shift either current or future income tax liabilities. Recommended strategies are based not only on the tax consequences themselves, but also in light of the individual's overall financial goals.

Retirement and estate planning

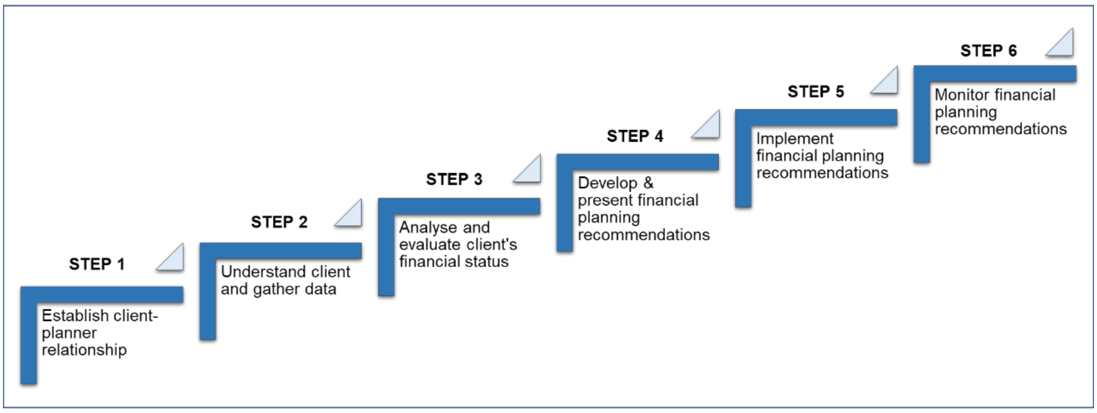
6.14 Retirement planning is essentially having a plan that takes care of one's savings, investments and passive income.

6.15 Equally important is estate planning to determine ways to preserve, manage and distribute the individual's assets while he or she is still alive and after he or she passes away. It incorporates the development and implementation of a master plan to facilitate the distribution of the individual's assets according to the client's wishes. It also considers the management of an individual's assets and liabilities in the event the individual becomes incapacitated.

Steps in Financial Planning

6.16 The common approach in financial planning involves six key steps as depicted in **Diagram 6.2** which are further explained in the following paragraphs:

Diagram 6.2: Key steps in financial planning



Step 1: Establishing and defining client-planner relationship

6.17 In order to achieve this objective, it involves:

(a) the financial planner explaining to his client clearly the services to be provided to the client;

(b) the financial planner and client defining their respective responsibilities throughout the financial planning process;

(c) the financial planner explaining in full to the client of his or her service fees and the party who will pay for the fees; and

(d) both financial planner and client agreeing on the duration and timeframe of the client-planner professional relationship and how decisions will be made.

Step 2: Understanding the client and gathering client data including goals

6.18 The financial planner must gather the necessary information about the client before giving his or her advice to the client. For this, the financial planner should:

(a) work with the individual to define the individual's personal and financial goals and the timeframe to achieve these goals; and

(b) obtain the relevant information and documents, which may include, but not limited to:

(i) income sources, expenditures, cashflow, assets, liabilities, obligations;

(ii) risk profile, risk appetite and risk tolerance; and

(iii) existing insurance protection and investments, existing estate plans.

Step 3: Analysing and evaluating client's financial status

6.19 At this stage the financial planner will analyse the information provided to him or her to assess the client's current situation and financial standing in order to determine if the client can meet his or her financial goals or otherwise. Surpluses or shortfalls identified from the analysis will be addressed accordingly. Some clients' spending is more than their income. Conducting cash flow analysis may help to reduce client's burden and to minimise client's expenditures on non-essential product.

Step 4: Developing and presenting financial planning recommendations and/or alternatives

6.20 Based on the information gathered from the client and analysis undertaken, the financial planner should formulate the financial planning strategies and the recommendations to meet the client's financial goals.

6.21 The financial planner should explain the strategies and recommendations to help his or her client to understand them and to make informed decisions. The financial planner is expected to listen to the client's concerns and revise or address his or her concerns accordingly.

Step 5: Implementing the financial planning recommendations

6.22 Both financial planner and his client must agree on how the recommendations will be carried out. The financial planner may execute the recommendations or provide the necessary assistance to the client to implement the recommendations such as coordinating the whole process with the client and the client's other service provider, for example, lawyers and stockbrokers.

Step 6: Monitoring the financial planning recommendations

6.23 The financial planner and his or her client must agree on who will monitor the client's progress in achieving his or her goals. If the financial planner oversees this, he or she should report to the client regularly based on mutually agreed timing and interval. The review should take into consideration the client's situation at the point of review and adjust the recommendations consistent with the changes in the client's life, if any.

Credentials and Qualification Required of a Financial Planner

6.24 Financial planning is one of the eight types of regulated activities under the CMSA. For this reason, anyone who wishes to carry on financial planning activity must observe the licensing requirements set out in the SC Licensing Handbook.

6.25 A CMSL for financial planning may be issued to a company or an individual subject to meet the fit and proper requirement set out in the CMSA. In addition to this, Chapter 5 of the SC Licensing Handbook sets out further licensing requirements for an individual who wishes to apply for a CMSL to carry on financial planning activities.

6.26 A CMSRL holder can carry on the regulated activity of financial planning if his principal is licensed to carry on that activity. However, a sole proprietorship or a partnership that has been granted CMSL is not allowed to have any licensed representative to act on its behalf.

6.27 In order to apply for the CMSL as a company, the applicant must fulfill SC's requirements as set out in Chapter 4 of the Licensing Handbook. These requirements include fulfilling the

(a) organisational requirements which include organisational competence, fit and proper requirements for directors, CEO and key personnel;
(b) shareholding composition; and
(c) adequacy of financial resources.

6.28 As mentioned in paragraph 6.25, a CMSL for financial planning may also be issued to an individual. An individual who wishes to apply for a CMSL must fulfill the requirements set out in the SC's Licensing Handbook as described below.

(a) General requirements

(i) Must be at least 21 years old;
(ii) Unless otherwise approved, must register his business with the Company Commission Malaysia;
(iii) Must at all times have net total personal assets (net worth) of at least RM50,000 or its equivalent in foreign currencies;
(iv) Must be a resident of Malaysia; and
(v) Must complete and submit a readiness checklist covering operational manuals, information technology, policies and procedures, internal controls and systems and procedures for compliance with applicable laws and regulations. SC reserves the right to conduct a readiness examination to ascertain the individual's readiness to commence business.

(b) The individual may obtain the required qualification from any one of the three (3) credential providers stated in the SC's Licensing Handbook, namely, the Financial Planning Association of Malaysia (FPAM), Malaysian Financial Planning Council (MFPC) and Malaysia Financial Planners and Advisers Association (MFPAA), formerly known as Malaysian Association of Chartered Financial Consultant (MAChFC).

6.29 An individual who wishes to apply for a CMSL for financial planning must note and observe the following:

(a) Unless specifically mentioned, the requirements set out under Chapter 4 (CMSL licensing criteria for a company) of the SC Licensing Handbook does not apply to the individual;
(b) As an individual CMSL holder, the individual cannot have a licensed representative to act on his behalf;
(c) If the individual's business is carried out through a partnership, only the licensed partner can carry on financial planning activities; and
(d) Comply with the requirements of the Continuing Professional Education in accordance with the format specified by the SC.

Skills Required of a Financial Planner

6.30 It should be clear that several different skills, including technical skills that are required to be a personal financial planner.

6.31 Another equally important skill is people skills. A high level of interpersonal skills is vital in order to make the client feel comfortable in providing the financial planner with full details of personal data and financial information. Some clients may feel very uncomfortable in providing these details; whilst , some will even refuse to provide the information. But it is unreasonable to expect a client to request a financial planner to produce a plan that suits the client's circumstances and objectives without full disclosure of all the information needed to produce the plan.

6.32 If a client is feeling at ease providing information, another skill required of a financial planner is listening. During the data gathering stage and in receiving feedback and suggestions from a client or in annual reviews of the plan, the financial planner must listen for 'clues' as to the client's thoughts and fears. A planner must understand the need to empathise with a client whose portfolio performance is perhaps less than expected due to unforeseen market movements and record the session in writing for future reference.

6.33 In addition to listening, the capability of reading clients' body language can be useful since many clients may express an opinion but their body language means the opposite.

6.34 A financial planner is also expected to observe a high standard of ethics and professionalism. In a nutshell, financial planners must put their client's interests ahead of their own interests. This will help a client to build up a relationship of 'trust' with the planner which is the most valuable "ingredient" in this long-term relationship between the financial planner and the client.

SIDC has developed a guidance for the competency capabilities of the Malaysian capital market professionals including the competency capabilities for financial planners. The following box provides an overview of SIDC's initiatives in this respect.

SIDC's Industry Competency Framework and Competencies for Financial Planners

The Securities Industry Development Corporation (SIDC) which is the learning and development arm of the SC, introduced an Industry Competency Framework (ICF) in 2017 to provide universal guidance for competency capabilities for capital market professionals involved in the activities regulated by the SC including Financial Planning. This ICF aims to further enhance the competitiveness of the industry in view of the changing global landscape.

Key features of the ICF include the Competency Dictionary, a tool that describes the core competencies related to specific roles along with their associated required competency level. It comprises 61 competency titles which cover 173 job roles making it a comprehensive competency framework for the Malaysian capital market.

In 2019, SIDC launched an online platform that centralises the ICF, assessment and development activities on a common hub. The platform, which is known as the Capital Market Competency Management System (CMS), facilitates continuous professional development of the capital market industry by offering assessment of competencies as prescribed by the ICF and identifying learning and development interventions. With CMS, individuals and corporations are able to assess and identify their own or their Employees' existing competency levels and development areas.

Consultants' Role in Investment Planning

6.35 Of the five areas in Financial Planning, the area most relevant to the UTS and PRS Consultants is Investment Planning.

6.36 Consultants must acquire the skills and experience to provide sound investment advice. Consultants help their clients in their investment decisions by performing the following functions:

(a) putting investment planning in perspective by educating clients that investment decisions are preceded and based on investment strategies that are established to meet their financial goals within a certain time frame;
(b) educating clients regarding the risk, liquidity, tax and management characteristics of the investments to help them manage their investment risk and undertake the appropriate strategies necessary to achieve their financial goals;
(c) advising clients on the use of credit risks and the costs involved, investment decisions related to corporate plans, and investment strategies such as dollar-cost averaging; and
(d) discussing and recommending appropriate UTS and PRS products.

Specific activities of the Consultants in investment planning

6.37 The specific activities Consultants undertake in investment planning depend on many factors, including the Consultant's professional qualification and his or her client's goals and the nature and complexity of the client's financial situation. In a comprehensive investment planning engagement, a Consultant should:

(a) determine the client's financial objectives and his or her order of importance;
(b) analyse the client's financial position and cash flow. Suggest changes to improve the client's cash position and analyse priorities, if necessary;
(c) determine the client's priorities for the allocation of financial resources among stated non-investment objectives, such as the amount of emergency funds and the acquisition of additional insurance;
(d) calculate the remaining assets that will be available to meet investment goals;

(e) gather and analyse the data necessary for developing the client's investment profile, including indications about the client's general disposition toward risks;
(f) determine the risk and return characteristics of the client's current investments;
(g) state the financial assumptions;
(h) determine the adequacy of the client's resources for achieving stated investment goals and analyse the appropriateness of the client's current investment strategies. If resources are insufficient, consider revising the allocation of resources, changing goals, or using investments with higher risks and yields that are acceptable by the client;
(i) provide the agreed-on level of investment planning service;
(j) provide the agreed-on level of implementation service;
(k) provide any agreed-on investment monitoring services;
(l) provide any agreed-on ongoing services and update the plan as necessary; and
(m) document the investment planning procedures, the client's decisions, and your continuing responsibilities.

Personal Financial Planning is Not Investment 'Selling'

6.38 It is vital to recognise that personal financial planning is different from investment 'selling'. While 'selling' is often associated with a 'one-off' act, personal financial planning encompasses a comprehensive approach to advice delivered on an ongoing basis to a client. A 'sale' of a financial product is often the culmination of a properly drawn-up and carefully considered personal financial plan. However, it is not the reason for drawing up a personal financial plan.

6.39 Personal financial planning involves an understanding of a client's financial affairs, goals and personal objectives. It requires the application of technical, communication and other interpersonal skills. These skills are then used to write the personal financial plan to the client, and to implement the agreed plan - perhaps in part by the purchase of appropriate UTS, PRS and other financial products.

6.40 It is important to appreciate that personal financial planning generally involves a relationship with other professionals appointed by a client. A financial planner cannot be an expert in all the technical aspects necessary to produce an appropriate personal financial plan. A financial planner must interact with other professional advisers with whom the client currently has a relationship. For example, a client may have appointed an accountant, a taxation adviser, stockbroker and lawyer. Liaison with all these professionals would be an important part of ensuring that the client's personal financial plan can be completed.

Client Types

6.41 Clients have differing financial objectives and capacities to save. However, there are certain similarities amongst clients and these usually relate to what stage a client is at in the life cycle. There are, generally, four main stages in the life cycle of a client.

Stage 1: approximately age 21 - 30 years

6.42 At this early stage of life, a client may be single or newly married. The client's income level may be sufficient to meet living expenses, and as such, there is little opportunity for saving. Thoughts of retirement are, of course, a long way into the future. There may be no significant financial responsibilities (for example, family members to support).

6.43 From an investment perspective, if the client has purchased a home, the client can perhaps begin to build a small nest egg by investing into **growth-oriented** UTS and PRS. Perhaps some additional risk can be taken by investing in more specialised and **aggressive** UTS and PRS. The client may be able to tolerate higher volatility in investment returns over the short-term, as the focus will be on returns over long periods.

Stage 2: approximately age 31 - 44 years

6.44 Commonly, such clients are married with young children and have purchased a home. Tertiary education expenses may be several years away and retirement may not be in the client's mind. The client's current financial responsibilities can be protected through appropriate levels of life insurance cover, and readily accessible savings.

6.45 Depending on the level of financial commitments, there may now be a greater opportunity to save and invest. A client can consider investing in long-term capital growth using **growth or balanced** UTS and PRS. If there are more significant savings available, the client can consider investing in some higher-risk UTS and PRS to maximise returns over the long-term.

6.46 EPF balances in Akaun Persaraan may now be sufficient to be transferred to UTS that are under the EPF-MIS that meet these objectives.

Stage 3: approximately age 45 - 60 years

6.47 A client in their mid 40s may now be more financially secured and has reached a career peak. He or She may have a high savings capacity to invest for retirement. Tertiary education expenses for children may be imminent.

6.48 When the client is approaching age 55 and above and while insurance protection is still very important, there may be a requirement to change the investment asset mix. Perhaps more conservative UTS and PRS should be considered, such **as income as well as balanced funds.** Such UTS and PRS could produce lower growth but with reduced risk, and the total portfolio can provide the client with financial independence upon retirement.

Stage 4: approximately age 61 years and above

6.49 A client's children have grown up and have finished their education and house mortgages are fully paid. Perhaps the client has now retired and earnings may have significantly decreased and priority will be to maintain income that can be generated out of capital. If not, with decreased financial responsibilities, it may be an appropriate opportunity to prudently increase the capital base prior to retirement. The objective is to attempt to maintain the purchasing power of the capital, whilst at the same time reducing the risk of loss. The client must consider contingencies, such as medical needs, in setting his or her investment portfolio. Perhaps a combination of income and balanced UTS and PRS is most appropriate. Aggressive UTS and PRS, which may produce high returns but with considerable volatility and perhaps significant losses, are not suitable for retirees.

6.50 Of course, the four stages are generalised and as mentioned, every client is different. It is nevertheless useful for prospective Consultants to see how a 'typical' client's life cycle can link with an investment portfolio involving UTS /PRS to achieve a client's objectives.

Difference between a Financial Planner and a UTS/PRS Consultant

6.51 The difference between a Financial Planner and a Consultant can be best described by the following examples.

Example 1

'A' introduces himself as a UTS or PRS Consultant to his client and does needs analysis. After asking questions about the latter's financial capability, understanding his or her investment goals and risk appetite, 'A' then recommends a UTS or PRS product. During the whole meeting, he or she maintains himself or herself as a UTS or PRS Consultant to his or her client. He/ or She only needs to be an authorised UTS or PRS Consultant who is registered with FIMM.

Example 2

'A', a UTS or PRS Consultant introduces himself or herself as a financial planner and does a needs analysis with his or her client. After asking questions about the latter's financial capability and understanding the client's investment goals and risk appetite, the UTS or PRS Consultant recommends the client to, amongst others, invest in a UTS or PRS product. 'A' is a financial planner and needs a CMSL or CMSRL because he or she calls himself or herself a financial planner. Of course, he or she also needs to be an authorised UTS or PRS Consultant who is registered with FIMM.

Because the Consultant in Example 1 above uses the financial planning skill sets to talk about investments, he or she is doing a single purpose financial planning as against comprehensive financial planning. Comprehensive financial planning would cover cash management, insurance planning, wealth creation, enhancement and preservation, tax planning, business succession, trusts and wills.

Remuneration of a Financial Planner

6.52 In overseas markets, clients are charged an advisory fee by the financial planner. In markets such as the United Kingdom and Australia, a significant proportion of sales of UTS is through the 'independent financial adviser' (planner) distribution channel. Independent financial advisers are professional individuals or franchisees who specialise in advising clients on where to invest their funds in order to achieve their desired investment outcomes, usually following completion of a financial plan.

6.53 Advisory fees can either be based on time spent developing a plan, or on the size of the portfolio of the client. If they are related to time, then obviously the longer the time spent in advising a client, the higher the charge. Similarly, a larger portfolio will attract a higher fee than a smaller one where the fee basis is based on the amount of funds under review. In the United States, some investment advisers levy their fees based on the performance of the investment products used in a plan.

6.54 Personal financial planning can be a profitable business, especially if the financial planner can earn fee income from the client, in addition to the commission-based remuneration received from the Scheme Provider and other product manufacturers.

6.55 In the earlier years, paying for a financial plan was not common in Malaysia. Financial planning was then perceived to be for those who are wealthy only. Even then it was more common for financial planners in Malaysia to be remunerated by way of commission payments from product manufacturers in the same way as a UTS or PRS Consultant.

6.56 The disadvantage of this method was that the reward to the financial planner was transaction-driven, since a payment was received only following completion of an investment transaction. Commission payments were, therefore, very much based on sales of investments or other financial products, and some argue that this was inappropriate when advising clients on setting and achieving financial goals.

6.57 A client might question whether the purchase of a particular investment was motivated by the commission payment likely to accrue to the financial planner, rather than the objective and independent assessment to ensure the particular investment met the client's goals.

6.58 In recent times, retail investors realise the importance of planning and seeking professional help to plan their personal finances. For this, they have become more receptive to the idea of paying for the service of financial planners.

6.59 A service-based reward to a financial planner reduces the need to 'sell' financial products and emphasises the ongoing and advisory nature of the service provided. Some regard a service-based reward as more 'independent' and 'professional'.

6.60 Helping clients meet their investment goals is one of the most satisfying accomplishments that a Financial Planner or Consultant can achieve. The Financial Planner or Consultant would definitely benefit from the growth of the assets that they manage as well as enjoy repeat sales, increased the size of business and obtain good referrals from satisfied clients. As a reminder, a client's wealth, their children's future and retirement, are all dependent on a competent and professional Financial Planner or Consultant.

Initiatives Undertaken to Enhance the Role of Financial Planners in Malaysia

6.61 Personal financial planning is a complex process involving a number of key steps, and in which recommending UTS and PRS may form one component.

6.62 Above all, personal financial planning is client-focused, and a successful financial planner must gain the trust of his or her client to be able to produce and implement a personal financial plan that is to achieve the client's goals and objectives.

6.63 Delivering holistic advice on a proactive basis is an advantage that financial planners may have over robo advisers or other artificial intelligence capabilities as these technological developments cannot replicate the intricacies of human connection. Having said this, financial planners should continue to leverage on these technological innovations especially in terms of reaching the masses in spreading awareness on financial planning and its importance.

6.64 The changes occurring in Malaysia indicates an exciting time ahead for the financial planning industry where Distributors and Consultants are well placed to benefit from forward looking policies and technological advancements.

6.65 In 2019, the SC allowed for flexibility in the fee structures for CUTA and CPRA. This has enabled CUTA and CPRA to establish a mentorship model within their firms and sharing of commission between the mentors and mentees within the firms. This structure allows the assignment of junior financial planners to senior financial planners where the junior ones would have the opportunity to gain practical understanding, build technical knowledge and the necessary soft skills.

6.66 However, financial planning firms should ensure that this structural liberalisation benefits all financial planners instead of just a small group of financial planners which is akin to a pyramid structure. This structural liberalisation should enable financial planning firms to enhance the attractiveness and sustainability of the profession in the long run.

6.67 The SC has also introduced Marketing Representative framework where financial planners are allowed to provide referrals to another holder of capital market license without registering as a marketing representative if the referral is in the course of providing financial planning services. Under this framework, financial planners are required to register only if the referrals that they make are not in the course of providing financial planning services.

PRACTICE QUESTIONS

Question 1

The followings are some of the steps in financial planning:

(i) Establish client-planner relationship
(ii) Understand client and gather data
(iii) Analyse and evaluate client's financial status
(iv) Manage cash

(A) (i) and (iii) only
(B) (ii), (iii) and (iv) only
(C) (i), (ii) and (iii) only
(D) All of the above

Answer: (C)

Question 2

Which of the following statements is correct?

(A) Both individual Financial Planners and Consultants must register with FIMM
(B) Both Financial Planners and Consultants must be licenced by the SC
(C) Investment planning can be undertaken by Financial Planners only
(D) Consultants must understand their clients' investment goal and risk appetite.

Answer: (D)

Question 3

Consultants cannot introduce themselves as a Financial Planner unless __________

(A) they are licenced by the SC to carry out financial planning activity
(B) they pass the requisite examinations
(C) they work with a CUTA or CPRA
(D) they are registered with FIMM

Answer: (A)

CHAPTER 7A

FEATURES AND OPERATIONS OF UTS

Learning Objectives

This chapter focuses on the structure of UTS, its operational requirements and their impact on the overall functioning of the UTS.

At the end of this chapter, you should be able to understand and describe the following:

- Structure of UTS;
- Mode of operations governed by the UTS trust deed;
- Salient operational aspects of the UTS, which include:
    - Fees and charges;
    - Dealing in units;
    - Unit Pricing;
    - Calculation of NAV;
    - Creation and Cancellation Prices;
    - Selling and Repurchase Prices;
    - Forward and Historical Pricing;
    - Unit Splits and NAV;
    - Distributions and NAV;
    - Measuring Performance;
    - Shariah-Compliant UTS; and
    - Borrowing to invest in UTS.

INDUSTRY COMPETENCY FRAMEWORK

Competency Level

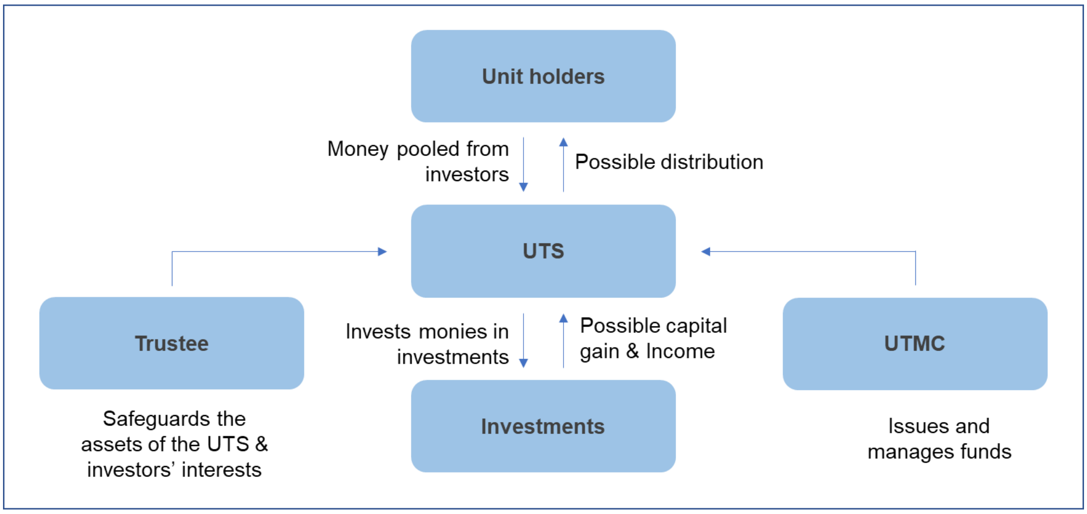
1. Functional Competency (Technical) – FUT09 Valuation (Level 2)
2. Functional Competency (Process)
    i. FUP11 Investment Product Management (Level 2)
    ii. FUP09 Fund Management (Level 2)

Structure of the UTS

7A.01 A UTS is a non-incorporated Collective Investment Scheme formed for the purpose of pooling the savings of investors with the intention that those savings be invested and managed for their mutual benefit. As explained in the earlier chapters of this study guide, investment professionals are appointed to manage the investments and establish controls such as the appointment of Trustee and other oversight functions that are put in place to safeguard the Unit holders' interest.

7A.02 Whilst there are many variations in the types and features of UTS to cater to the needs of the unit holders, the structure of UTS is the same. **Diagram 7A.1** below provides an illustration of a common structure of UTS.

Diagram 7A.1: Structure of UTS



Trust Deed as the UTS Operational Point of Reference

7A.03 The operation of each UTS is governed by a deed. The deed sets out the rights and obligations of the UTMC, Trustee and unit holders. In essence, a UTMC, which is normally the issuer and promoter of the UTS, is responsible to ensure that the operation of UTS is in accordance with the deed and the UTS prospectus. At the same time, the Trustee's main duty is to monitor the operation of UTS and to safeguard the unit holders' interest. Various remedies are available to the unit holders in the event of any breaches.

7A.04 In addition to the rights and obligations of the UTMC, Trustee and unit holders, the deed also sets out the salient operational aspects of UTS including the following:

(a) Fees and charges
(b) Dealing in units
(c) Unit Valuation and Pricing
(d) Calculation of NAV
(e) Creation and Cancellation Prices
(f) Selling and Repurchase Prices

(g) Forward and Historical Pricing
(h) Unit Splits and NAV
(i) Distributions and NAV
(j) Measuring Performance
(k) Base currency
(l) Financial Period
(m) Termination of a Fund

7A.05 Amongst others the deed:

(a) outlines the maximum fees payable;
(b) meeting of unit holders
(c) describes the investments in which UTS can be invested;
(d) prescribes how the value of a unit is to be determined; and
(e) determines how the price at which a unit to be sold to investors, and bought from them, by UTMC is to be calculated. These operational aspects of UTS will be described in greater detail in this chapter.

7A.06 In addition to the operational aspects of the UTS, the deed also clearly sets out the investment objective of a fund. Where the strategies to be adopted involve investment in a particular style, asset class, economic sector, market or geographical area, the UTMC should ensure that an appropriate portion of the fund is invested in accordance with that intention.

7A.07 The contents of the deed must not be prejudicial to the interest of a unit holder or a Unit holder of any class of units, where applicable.

7A.08 Since the UTS is governed by a trust structure, the SC guidelines impose a requirement for a deed to be registered with the SC to ensure that a trust governing the establishment and operation of the UTS is created and entered into between the UTMC and the Trustee. For this, the provisions and covenants of the deed must meet the minimum requirement specified in the UTF Guidelines.

Parties to the Deed

7A.09 The parties to a UTS deed are UTMC, Trustee and unit holders. The main roles of each of the parties in the UTS structure and the interactions amongst these parties are described in the following paragraphs.

UTMC

7A.10 UTMC of UTS make reports to the Trustee regarding the purchase, sale and management of the investments of UTS. UTMC also promotes and distributes or sell units in UTS either directly or through IUTA, CUTA and UTS Consultants, provide services to the unit holders, and buy back units from those unit holders who wish to dispose of their units. UTMC keeps the accounting records of UTS since these are required to calculate unit NAV, and to determine the amount of distributions payable to unit holders. UTMC also maintains a register of unit holders in each UTS showing the units held by each unit holder.

Trustee

7A.11 The Trustee is responsible to unit holders for safeguarding UTS assets and ensuring that they are invested in accordance with the terms of the deed. The Trustee supervises the operations of UTS to ensure that its objectives are followed by UTMC and that the interests of the unit holders are protected. The Trustee is independent of UTMC and can remove one that fails to manage the UTS effectively and in accordance with the deed. The Trustee is also responsible for approving and monitoring all financial transactions, holding title documents of all UTS assets, and collecting all income entitlements on investments held.

Unit holders

7A.12 Amongst the three parties to a deed, the unit holders are the most significant one since they supply the capital to be invested by UTMC on their behalf. As such, they are the source of the fees earned by UTMC (where the salaries and commission payments of UTS Consultant are derived from) and the Trustee.

7A.13 Unit holders hold units where each unit rank equally with all other units of that UTS. The value of a unit is determined by using a formula set out in the deed, as follows:

$$Value\ of\ a\ Unit = \frac{Market\ Value\ of\ Net\ Assets}{Total\ Units\ in\ Circulation}$$

Unit holders purchase units in UTS by completing an application form contained within a UTS prospectus.

Modification of the Deed

7A.14 Changes can be made to the content of the deed. However, in order to ensure the interest of unit holders are safeguarded, any changes to be made to the deed must be in accordance with the requirement set out in the SC's UTF Guidelines.

7A.15 A UTMC of a fund must inform unit holders of any change made to the fund. As such, the UTMC or Trustee must convene a unit holders' meeting to obtain unit holders' approval where the interests of the unit holders may be materially prejudiced by any changes to the deed.

7A.16 Examples of changes that may materially prejudice the interests of unit holders include:

(a) changes to the nature or objective of the fund;
(b) changes to the risk profile of the fund;
(c) change in distribution policy;
(d) introduction of a new category of fees or charges; or
(e) increase in fees or charges.

7A.17 Where any change to the fund may materially prejudice the interest of the Unit holders, a unit holders' meeting must be convened and approval of not less than two-thirds of all unit holders must be obtained.

7A.18 Subsequently, where changes to fund also require further amendments to the deed, any modification of the deed can only be done through a supplementary deed which is also required to be registered with the SC.

Operational Aspects of UTS

7A.19 It is important for UTS Consultant to understand the operational aspects of UTS especially in their role as the intermediary between the UTMC and the unit holders. By having a good understanding of the operational aspects of UTS enables the UTS Consultant to address any concerns that the unit holders may have or provide the relevant information to the unit holders accurately and in a timely manner.

Fees and charges

7A.20 Investors must fully understand the fees, charges and other costs associated with investment in UTS. As with all financial services, they are delivered to the investor at a cost. Whilst investing in UTS is an economic method of investing in a range of investments, the costs are not insignificant and investors must be fully apprised of the costs to allow them to make informed investment decisions.

7A.21 There are two classes of fees and charges in UTS - those borne directly by an individual client, and those which are deducted from the assets of UTS and which are therefore suffered indirectly by unit holders in proportion to the number of units each holds.

Direct fees and charges

7A.22 Fees and charges that are directly applied to Investors are initial service charge, fees for specific services and exit fee.

Initial service charge

7A.23 The first cost that an investor incurs in relation to UTS is the initial service charge (sometimes called the service, sales, entry, or "up front" charge). This is the cost for an investor to invest in UTS which is levied primarily to cover the costs incurred by UTMC to market and distribute UTS, and the costs to open an account for the unit holder.

7A.24 The cost of investing in UTS is based on the NAV of UTS.

7A.25 This initial service charge must not exceed the maximum amount stated on the UTS prospectus and allowed under the deed of each UTS.

7A.26 Under the single pricing regime which came into force on 1 July 2007, the transparency of service charges is further enhanced. The maximum rates of service charge to be imposed by each distribution channel are now required to be disclosed in the prospectus in order for investors to compare the costs of investing in UTS associated with different channels of distribution.

7A.27 Distributors and UTS Consultant are required to clearly inform the investors of the actual rate of charges payable at the point the investors making an investment. All charges paid will be separately disclosed in the statements confirming investors' purchase and disposal of units.

7A.28 Also, the practice of providing discounts and rebates by way of quoting a higher rate of charge but actually imposing a lower charge is prohibited.

7A.29 Assuming that a typical UTS sales charge is in the range of 5 to 7%, this means that for every RM1,000 investment made by an investor, an amount of between RM50 and RM70 will be charged by UTMC – this is like a stockbroker's commission that is added to the cost of shares purchased on behalf of an investor. Investment in most UTS should not, therefore, be for the short term, as the cost of investing is reasonably high. When this cost is spread over a longer time frame, it becomes less significant. Rapid purchase and sale of units in UTS can erode the principal and capital gains (if any), because the costs of investing due to the fees and charges become a significant drain on an investor's capital.

7A.30 In some cases, UTMC may reduce the cost of investing in UTS, e.g. during the initial launch period of UTS (for example when one per cent of free units is given during the offer period of 21 days), or where an investor is switching (e.g. disposing of units and reinvesting the proceeds in another UTS managed by that UTMC). This is one way that UTMC seeks to attract or maintain interest in their range of UTS, while saving on marketing costs.

Fees for specific services including switching and transfer

7A.31 Some UTMC charge a unit holder, who requests certain services a separate fee and these charges must be paid directly to UTMC by the unit holder. For example, UTMC that do not usually issue unit certificates to unit holders may be prepared to do so for an individual investor for an appropriate fee. A fee may also be charged to transfer units to another unit holder. Some switching fees can also be charged as a fixed amount rather than charged on a per unit basis. Such charges/fees can also be deducted from the proceeds of the unit holders' transactions.

Exit fee

7A.32 Exit fee is also referred to as a repurchase charge. This fee represents a deduction by UTMC from the proceeds of disposal of a unit holder's unitholding. Exit fees may be charged as an alternative to an initial service charge but it is least likely to be introduced by UTMC..

Indirect fees and charges

7A.33 Indirect or non-discretionary fees and charges that are borne by unit holders are Annual Management fee, Trustee fee and UTS expenses.

Annual management fee

7A.34 The SC UTF Guidelines stipulate that a UTMC may only be remunerated by way of an annual fee charged to the fund. Management fees may include performance fees. In charging a performance fee, the UTMC must comply with the following principles:

(a) the computation of performance fee should be equitable to all unit holders;
(b) the frequency for crystallising the performance fee should not be more than once a year;
(c) the method of computation should be:
    (i) be independently verifiable;
    (ii) be measured against an appropriate benchmark that is consistent with the investment objective and strategy of a fund. If the performance fee is not measured against a benchmark, the performance fee can only be payable if the NAV per unit exceeds the NAV per unit on which the performance fee was last calculated and paid;
    (iii) ensure the performance fee is only payable on the excess performance and increases or decreases proportionately with the investment performance; and
    (iv) ensure cumulative losses are offset in some way by cumulative gains before a performance fee is payable, if the computation is not based on a fulcrum fee model;
(d) the use of performance fee must be clearly disclosed to Unit holders, including the computation method of performance fee together with illustrations as well as its impact on the fund.

7A.35 Management fee may only be charged to the fund if permitted by the deed and clearly disclosed in the prospectus. The fee should be accrued daily and calculated based on the gross NAV of the fund. It is charged to UTS, daily at the agreed rate. Since this fee is paid out of UTS assets, it is therefore borne by Unit holders based on the number of units each holds.

7A.36 Annual management fees that average around 1.5% per annum are levied by UTMC to cover the costs of managing UTS. Some UTS charge less, particularly fixed income UTS and money market UTS - arguably reflecting the lower costs of managing these UTS. Such costs would include salaries, office rent, computer systems, depreciation, compliance, training, marketing and distribution costs, funds management and other operating costs and general overheads of UTMC.

7A.37 Annual management fees must be approved by the Trustee before being paid from UTS assets. They are reflected as a reduction in NAV and, therefore, a reduced unit price. In some UTS (those with a fixed unit price), the annual management fee is deducted from the distribution payable to unit holders. In both cases, the annual management fee reduces the return to investors and the performance of UTS.

7A.38 In addition to proper disclosure of the annual management fee in UTS prospectuses, the SC also imposes other obligations on UTMC. The annual management fee is the only remuneration to be received by UTMC for managing UTS. The maximum amount of the fee must be stated in the deed, although UTMC may charge a lower fee with the Trustee's agreement. A higher fee (subject to the maximum in the deed) than that described in the last prospectus may be charged to investors (with the Trustee's approval), but only after the unit holders have been given notice of the change. A prospectus (or supplementary prospectus) must be issued by disclosing that the new rate will apply after not less than 90 days of the date of issue.

7A.39 The Trustee is required to ensure that the annual management fee is reasonable at all times, given the services provided by UTMC, the fund size, the nature of the UTS investments, and the success of UTMC in meeting the objectives of UTS and its performance.

7A.40 Should the Trustee believe the annual management fee is unreasonable, it is required to take appropriate action - which may include convening a meeting of unit holders - to ensure the fee is appropriate for the services provided by UTMC.

Trustee fee

7A.41 The Trustee of UTS is remunerated for its services in a similar way to UTMC. The UTF Guidelines require the Trustee fee be reasonable and takes into consideration the following:

(a) the roles, duties and responsibilities of the Trustee;
(b) the interests of unit holders;
(c) the maximum rate stipulated in the deed; and
(d) the size and composition of the fund's assets.

7A.42 No other fees may be charged by the Trustee to cover its operating expenses, although it may reimburse itself for any expenses properly incurred in the performance of its duties and responsibilities (for example, external legal advice). The maximum amount of the fee must be stated in the deed, and the actual fee charged must be agreed with UTMC and reflect the role, duties, and responsibilities of the Trustee, and for the interests of unit holders.

7A.43 The fee must be disclosed in UTS prospectuses.

UTS expenses

7A.44 In addition to annual management and trustee fees, other expenses directly related and necessary to the operation of UTS may be deducted from the assets of UTS. These include:

(a) the transaction costs of buying and selling UTS assets;
(b) income tax and other government duties;
(c) auditor's fees and expenses;
(d) investment valuation fees;
(e) legal costs incurred in amending the deed (except in relation to changes for the benefit of UTMC);
(f) costs of holding meetings of unit holders (except those held for the benefit of UTMC); and
(g) cost of issuing a prospectus (but only where unit selling prices does not include an initial service charge).

7A.45 Management and administration expenses of UTS that should be payable by UTMC from its annual management fee are not reimbursable from UTS assets. The Trustee is required to ensure that all reimbursed costs are legitimate and reasonable.

Management Expense Ratio (MER)

7A.46 The MER represents a single measure (or summary) of the various operating costs of UTS borne annually by unit holders on each unit held. It must be disclosed to investors in the UTS annual fund report.

7A.47 The calculation of MER for a particular year is as follows:

$$MER = \frac{Fees\ of\ the\ UTS + Recovered\ Expenses\ of\ the\ UTS}{Average\ Value\ of\ the\ UTS\ calculated\ on\ a\ Daily\ Basis} * 100$$

Where:

(a) *Fees = all ongoing fees deducted/deductible directly from the unit trust fund in respect of the period covered by the MER expressed as a fixed amount, calculated on a daily basis. This would include the annual management fee, the annual Trustee fee and any other fees deducted/deductible directly from the UTF.*

(b) *Recovered expenses = all expenses recovered from/charged to the UTS, as a result of the expenses incurred by the operation of the UTS, expressed as a fixed amount. This should not include expenses that would otherwise be incurred by an individual investor (e.g. brokerage, taxes and levies); and*

(c) *Average value of the UTS = the NAV of the UTS including the unit trust net income value of the fund, less expenses on an accrued basis, in respect of the period covered by the MER, calculated on a daily basis.*

7A.48 The amount represented by 'fees + recovered expenses' must be equal to the total expenses incurred by UTS as shown in UTS financial statements for the year.

Example:
For the year ended 30 November 20XX, the financial statements of ABC Growth Fund show that the following expenses were incurred:

Table 7A.1: Extract of ABC Growth Fund financial statement for the year ended 30 November 20XX

Expenses	Amount (in RM)
Management fee	31,764
Trustee fee	6,078
Auditors fee	1,200
Bank charges & other expenses	2,482
TOTAL	41,524

(a) The average fund size of ABC Growth Fund during the year was RM3,122,250.

(b) With this, the MER of the Fund for the year ended 30 November 20XX was:

$$MER = \frac{RM41{,}524}{RM3{,}122{,}250} * 100 = 1.33\%$$

7A.49 The MER allows investors and UTS Consultant to assess:

- the previous year's cost of holding units in a UTS and compare it to past and prospective returns;
- to the MER of competitor UTS; and
- the costs of other investment opportunities.

It is a simple measure that replaces the multitude of fees, charges and costs listed above.

7A.50 A gradually decreasing MER over a period of several years indicates that a UTMC may be managing its operating costs efficiently for its fund size. UTS Consultants should note that UTS with a larger fund size should generally have a lower MER than smaller UTS, as there may be some economies of scale that can be shared with unit holders. However, this need not necessarily be so.

Dealing in Units

7A.51 A UTMC must agree to issue and repurchase units upon the formal request of a unit holder. The Trustee will create and cancel units in a UTS (e.g. vary the number of units in circulation) when the UTMC raises a requisition, and in accordance with the UTF Guidelines. The UTF Guidelines specify, for example, that the UTMC must create units only for cash (which must be paid to the Trustee within 7 business days), and at a price determined in accordance with the deed and Guidelines. The Trustee must also ensure that the investment valuation and unit price calculation process is carried out by the UTMC in accordance with the deed and UTF Guidelines.

7A.52 All persons involved in the marketing and distribution of units are 'dealing in unit trusts' and must therefore be registered UTS Consultant. They must comply with all the requirements and obligations of UTS Consultant.

7A.53 'Dealing in unit trusts' means, whether as principal or agent, making or offering to make with any person, or inducing or attempting to induce any person to enter into or to offer to enter into:

(a) any agreement for or with a view to acquiring, disposing of, subscribing for, or underwriting any interest in unit trust funds; or

(b) any agreement the purpose or avowed purpose of which is to secure a profit to any of the parties from the yield of any interest in unit trust funds or by reference to fluctuations in the value of any interest in unit trust funds."

7A.54 UTMC, IUTA and CUTA are responsible for ensuring that all people involved in the marketing and distribution of units (e.g. persons who ‘deal in unit trusts’) are registered with and authorised by the FIMM to market and/or distribute units.

7A.55 In order to standardise the DCT in receiving applications for purchases and redemptions of units, FIMM has issued IMS 1 - Dealing Cut-Off Time for Unit Purchases and Redemptions, where the DCT in respect of receiving applications for purchases and redemptions using the same day-end’s pricing must not be later than 4.00 pm each business day. Any applications received after the DCT will be processed based on the next day-end’s pricing.

Valuation

7A.56 The market or assessed value of an investment held by a UTS is used to determine the NAV of the UTS. The market value of an investment is usually obtained from an external pricing service that obtains actual prices at which trades have been transacted on a market such as Bursa Malaysia. The assessed value of an investment is a ‘fair’ value as determined by a skilled valuation specialist such as a real estate valuer, fixed interest dealer or, less commonly, by the auditor of a UTS.

7A.57 A fair and accurate valuation of all the assets and liabilities of the fund must be conducted at each valuation point to determine the NAV per unit of the fund. The valuation process must be consistently applied and the valuation process must be verifiable and objective. Once valuation is determined, the Trustee will have to be immediately notified.

Valuation point

7A.58 The point in time at which the NAV of a UTS is determined by reference to market prices and from which the NAV per unit of a UTS is calculated.

7A.59 The valuation point must be at least once every business day although in some circumstances with limited repurchase arrangement or investments in illiquid assets (like real estate), the daily valuation requirement does not apply. In those cases, the valuation points must be clearly disclosed in the disclosure documents and fund price (or NAV) must be calculated at least once a month.

Unit Pricing

7A.60 In a listed UTS, units are bought and sold in the same way as listed shares on Bursa Malaysia. A unit holder disposing of units in a listed UTS - through the market - negotiates a price with a potential buyer of those units. A transfer of ownership takes place when the register of Unit holders is altered to reflect the new owner of the units. This is also the position where the UTS is a closed UTS, e.g. an unlisted UTS, where the limited number of units available, once sold, can only be purchased from other unit holders.

7A.61 In an open-ended UTS (e.g. a non-listed UTS where units can be continuously created), units are sold to investors by UTMC and then repurchased by UTMC when investors wish to dispose of those units. UTMC act as a principal in both transactions. UTMC acts like any other supplier of a product and holds a stock of units in each UTS, from which units are sold to investors or repurchased from them. As the level of stock fluctuates from day to day, UTMC may need to replenish stocks by acquiring more units through the Trustee of the UTS (a 'creation' of units); or, if UTMC holds too much stock, the stock of units can be reduced by asking the Trustee to extinguish units in the UTS (a 'cancellation' of units).

7A.62 Consequently, there are two sets of unit prices:

(a) an NAV per unit at which UTMC transact with investors, and
(b) a creation and a cancellation price at which UTMC transacts with the Trustee.

7A.63 With effect from 1 July 2007, the industry changed the regime for pricing of UTS from one that is based on dual-pricing to a single-pricing regime. Under the old dual-pricing method, buying and repurchase prices are incorporated with initial service and exit charges respectively and are quoted and used separately for transactions involving buying and selling of units.

7A.64 However, under the new single pricing regime, all buying and selling of units will be transacted based on a single price e.g. unit NAV.

7A.65 This section describes how each of these prices is determined. The common thread in the calculation of each is the determination of NAV of UTS. Under the single pricing regime, both sets of unit prices must be the NAV of that UTS, so the calculation of NAV is vital. If NAV is inadvertently miscalculated, the effect is that the integrity of that UTS is undermined since, for example, the existing investors may have their interests (e.g. proportionate share of UTS net assets) reduced or diluted by new investors paying a price below that of the true NAV.

7A.66 Some UTS have a fixed unit price at which units may be sold to and repurchased from investors by UTMC. In these UTS, the NAV is fixed at RM1.00 and all unit transactions with investors and with the Trustee are completed at the same price as RM1.00.

Calculation of NAV

7A.67 The NAV of UTS comprises the sum of the investments at market value and liquidity (cash available for investment) as described below:

Investments in market value

7A.68 The SC UTF Guidelines require a fair and accurate valuation of all assets and liabilities of the fund in line with the requirements set out in the guidelines, deed and prospectus. Schedule C of the UTF Guidelines provides guidance on the valuation basis for some investment instruments. Valuations must be based on a process which is consistently applied and leads to objective and independently verifiable valuations.

Liquidity (Cash available for investment)

7A.69 Liquidity is represented by money market instruments (such as bankers' acceptances and call deposits). Net cash flow in UTS is sourced from:

(a) creations less cancellations of units in UTS. When UTS arranges creation of units through the Trustee, cash for the units created must be paid by the UTMC to the Trustee to be held for Unit holders in that UTS. Similarly, when units are cancelled, the Trustee will pay cash from that UTS to the UTMC. Both payments must be made within 7 days of a UTMC's instruction to the Trustee to create or cancel units.

(b) proceeds from the sale of UTS investments, less payments for purchases of investments.

(c) investment income (e.g. dividends, interest, rent, etc.) from the UTS portfolio less fees and charges of UTS less Malaysian income tax paid on taxable income of UTS and withholding tax suffered on overseas investment income received by the Trustee on behalf of UTS.

(d) other assets less liabilities, e.g. income receivable less accrued expenses; amounts receivable from the sale of investments (but not yet received) less amounts payable for investments purchased (but not yet paid); income tax outstanding on UTS taxable income for the previous year and provision for income tax on the current year's taxable income.

Dilution fee or transaction cost factor (TCF)

7A.70 The transaction cost factor (or expense allowance) is a small addition (in percentage terms) to the NAV of UTS. It may be made by UTMC in accordance with SC requirements when units are created (or deducted from NAV when units are cancelled) in order to protect the interests of the unit holders in UTS. Each time investments of UTS are bought and sold, transaction costs (such as brokers' commissions on securities traded on Bursa Malaysia) are incurred. If no allowance was made for such costs in determining unit prices of UTS, the interests of unit holders who were not responsible for that UTS incurring those expenses (because they were not buying or selling units) would be diluted. Therefore, to protect investors in UTS, an allowance for transaction costs may be added to the NAV in order to determine the unit prices of UTS.

7A.71 If the transaction costs are not material, no adjustment needs to be made. In Malaysia, a transaction cost factor is usually only applied in determining the creation price of a unit in UTS. With declining transaction costs in relation to securities listed on Bursa Malaysia following deregulation of the rate of stockbroker commissions (in line with other international markets), there is likely to be less adjustment necessary to NAV to reflect transaction costs.

7A.72 A UTMC must notify the Trustee of the amount or rate of any dilution adjustment made to the NAV per unit of the fund, or any dilution fee imposed as soon as practicable after the valuation point. The UTMC must not impose a dilution fee or make a dilution adjustment for the purpose of making a profit or avoiding a loss for the account of the affected unit holder.

Creation and Cancellation Prices

7A.73 The creation price is determined in accordance with the formula:

$$Creation\ Price = NAV + TCF$$

7A.74 The cancellation price is determined as follows:

$$Cancellation\ Price = NAV - TCF$$

7A.75 During the launch period of a new UTS (a period usually not exceeding 21 days), the creation price is equal to unit NAV. In the unlikely event that units are cancelled during the launch period, the applicable cancellation price is equal to the creation price.

Selling and Repurchase Prices

7A.76 These prices are the most important from the perspective of UTS Consultant and Investors as they represent the prices quoted by UTMC, those advertised in their respective website and to some extent the press, and those often used in UTS performance tables.

7A.77 The selling and repurchase prices of a unit must be the NAV of the UTS. The selling and repurchase prices of UTS are calculated as follows:

<u>Example:</u>

7A.78 Assume the NAV of ABC Growth Trust is determined as RM45,626,788 and that there are 65,500,000 units in circulation. Also assume that no transaction cost factor applies as transaction costs are not material.

Calculate the selling and repurchase prices of a unit by rounding up the unit prices to four decimal places.

$$NAV\ per\ unit = \frac{NAV\ of\ UTS}{Units\ in\ Circulation} = \frac{RM45{,}626{,}788}{65{,}500{,}000} = RM0.6966$$

RM0.6966 is the selling price at which UTMC can sell units to an investor. The same unit NAV will also be the repurchase price quoted by UTMC for investor who wishes to dispose of his or her units on the same day.

7A.79 In order to enable investors to have access to the unit price, the UTF Guidelines states that the UTMC must publish the price of the fund’s unit, and where applicable, the price of a unit of any class of unit, at least once on every dealing day.

7A.80 The UTF Guidelines further requires a UTMC to take remedial action to rectify any incorrect valuation or pricing. Where the incorrect valuation or pricing is at or above the threshold of 0.5% of the NAV per unit, rectification must be extended to the reimbursement of money:

a) by the management company to the fund;
b) from the fund to the management company; or
c) by the management company to Unit holders and former Unit holders.

Forward and Historical Pricing

7A.81 The selling and repurchase prices of UTS must be the NAV per unit at the valuation point. Traditionally, historical pricing has been used in Malaysia, where unit transactions are completed. This means when an investor buys or sells units in UTS, the quoted price is based on the NAV determined at the close of business on the previous business day. By contacting UTMC during the day, an investor could be advised of the unit prices before making an application or requesting a repurchase of units.

7A.82 While this is convenient for investors and UTS Consultant who can advise the precise number of units in UTS that an investor may obtain (assuming the application is received by UTMC on the same day), it can create unfair advantages for certain investors.

7A.83 Assume that Bursa Malaysia rises strongly today. If a UTMC operates on historical pricing, Investors can submit applications today, knowing they will be allocated units based on yesterday's lower NAV.The next day's NAV will reflect the market rise, meaning the investor has acquired more units at a lower price, creating a gain at the expense of existing unit holders.

7A.84 A more equitable method for determining the number of units to be allotted as a result of an application (and also the amount of proceeds from disposal of units) is for the UTMC to adopt forward pricing. Under forward pricing, the number of units allotted is based on the NAV at the close of business on the actual day of application receipt. Investors pay (or redeem) units based on the latest NAV calculation, ensuring fair market value transactions. The UTMC can create or cancel units with the Trustee at the same NAV valuation point.

7A.85 The UTF Guidelines state that the pricing of UTS must either be forward pricing or historical pricing. Where historical pricing is used, UTMC should have an additional valuation point during the mid-day of business and re-price the units where it differs by 5% or more from the last valuation point.

7A.86 It is best to explain forward pricing with an example. Say the published NAV per unit of Fund A (an equity fund) on 20 March 20X4 was RM1.00. Assume that overnight, there was equity market turbulence and the major overseas markets plunged. Unit holder X wants to switch to another fund, hence redeems his or her one unit in Fund A and submits the request on 21 March.

7A.87 Forward pricing means that unit holder X would only receive his or her redemption at the price of the NAV per unit on 21 March (the next valuation point) which turned out to be RM0.98. Allowing unit holder X to redeem at RM1.00 per unit would disadvantage the rest of the unit holders because unit holder X would gain RM0.02 per unit at the expense of the rest of the unit holders.

7A.88 Conversely, say the overseas markets experienced a huge rally and unit holder. Q wants to buy the fund and submitted his or her request on 21 March to buy one unit. The NAV on 21 March turned out to be RM1.03. Unit holder Q could only buy the fund at RM1.03 per unit (the forward price). Allowing unit holder Q to buy the fund at historical NAV of RM1.00 per unit (on 20 March 20X4) would be allowing unit holder. Q to profit at the expense of the other Unit holders.

7A.89 **Table 7A.2** below provides some data for another example:

Table 7A.2: UTS AAA fund price per unit on 23 and 24 January 20X4

UTS AAA - Fund Pricing	
Date	NAV
23 January 20X4	RM1.00
24 January 20X4	RM1.20

7A.90 The UTMC's AAA's valuation point is at 4pm every business day. For Mr. A who submits a request to invest in the fund on 23 January 20X4 at 12pm, the valuation points for his/her investment would be NAV for 23 January 20X4 which would only be published the following day.

7A.91 For Mr. X who submits a request to invest in the UTS fund on 23 January 20X4 at 5pm, the NAV per unit for his/her investment will be RM1.20.

7A.92 From the above example, it becomes clear that the forward pricing will depend on the timing of the next valuation point.

7A.93 For investment requests submitted after the valuation point or time, it will be based on the NAV of the next business day. It is important to note that the UTMCs have differing valuation points.

7A.94 While historical pricing enables investors to be aware of the buying or selling price at the time of placing their request, it could also expose the UTS to potential arbitrage risks. This will be detrimental to other existing UTS unit holders as the value of their underlying assets in the UTS may be diluted.

7A.95 For this, Paragraph 8.39 of the UTF Guidelines of permits either forward or historical pricing, however, it is mentioned in the Guidance to Chapter 8: Dealing, Valuation and Pricing that funds should adopt forward pricing to align with international practices and to minimise arbitrage opportunities arising from the timing differences. While forward pricing is generally preferred, the adoption of historical pricing may still be considered for certain money market funds, given their low volatility and stable returns.

Holding of Units by UTMC

7A.96 A UTMC may hold units in UTS only to facilitate sales and repurchases of units, and to reduce the number of creations and cancellations of units with the Trustee. The value of its stock of units can rise and fall in line with the NAV of that UTS. UTMC may, just like all unit holders, make a gain or loss through holding units in UTS and this can be a source of profits (or losses) for UTMC. The SC has set maximum holdings of units for UTMC in UTS in order to limit the UTMC's financial exposure in this aspect.

7A.97 Where a management company or its related corporation holds units in a fund that it manages, it must ensure that there are adequate policies, procedures and controls established to manage any potential conflict of interests.

Unit Splits and NAV

7A.98 A unit split is the division of a single unit in UTS into more units. Sometimes, a unit split is erroneously referred to by UTMC as a 'bonus' issue of units. A dictionary definition of a 'bonus' is 'something extra'. As the following example shows, no additional value accrues to a unit holder who becomes entitled to a bonus issue of units in UTS.

Example:
The directors of UTMC of ABC Growth Fund declare a split of 1:2 (e.g. one additional unit for every two units held). An investor with a holding of 1,000 units in the ABC Growth Fund before the unit split occurs will therefore be entitled to 1,500 units after the unit split has occurred.

Is the Investor better off?

Table 7A.3: NAV per unit before and after the unit split

NAV before the split	RM180,000,000
Units in circulation before the unit split	100,000,000 units
NAV per unit	RM1.80

NAV after the split	RM180,000,000
Units in circulation after the unit split (100,000,000 + 50,000,000)	150,000,000 units
NAV per unit	RM1.20

An Investor holding 1,000 units before the 1:2 unit split has an investment with an NAV of RM1,800 (1,000 x RM1.80) and after the unit split, he or she will hold 1,500 units valued at RM1,800 (1,500 x RM1.20). The unit split does not add value to the unitholding.

7A.99 The effect of splitting units in UTS does not affect the NAV of that UTS; nor does it affect the value of a unit holder's investment.

7A.100 So why does a UTMC declare unit split? There are a few simple reasons.

(a) The effect of a unit split is to reduce the stated selling and repurchase prices of a unit after the split has occurred. Although it makes no difference to the NAV of UTS to do so, for psychological reasons, investors seem to prefer to hold a larger number of low-priced units rather than a smaller number of high-priced units.

(b) Hence, a UTMC may like to maintain a lower unit price simply because the Investor can hold a larger number of units in UTS with the same amount of application money than if the unit price was higher. By splitting units, a high-priced unit becomes a lower-priced unit and new investors may be more inclined to purchase units - especially in comparison with competitor UTS that may have high-priced units.

(c) By reducing the selling and repurchase unit prices and the NAV of UTS, UTMC profit margins on selling units become less significant in cent per unit.

7A.101 When a UTS retains income that could otherwise be distributed in cash, there is no effect on the NAV of the UTS or the value of unitholdings, and unit holders receive no income that need be declared for income tax purposes. By maintaining UTS NAV (and the value of unitholdings), unit holders are maximising the value of the investment in UTS and, since capital gains on realising units held are not generally subject to income tax, investors are maximising the after-tax return from investment in that UTS.

7A.102 In the past, many UTMC frequently declared ‘bonus’ issues of units in UTS - sometimes several times in a single financial year. In some cases, it could be argued that unit holders in UTS were likely to be misled as to the true investment returns made by UTS. Consequently, the Guidelines stipulates that UTMC may conduct unit split exercise once in any financial year of the fund and when the monthly average NAV per unit of the fund has shown a sustainable appreciation over a 6-month period preceding the unit split exercise. Sustainable appreciation means the monthly average NAV per unit of a fund increases from one (1) month to another over the six-month period.

7A.103 A unit split is processed by a UTMC by closing the register of unit holders of UTS while the number of units of each holder is altered to reflect the unit split. Statements of new holdings or unit certificates are then be forwarded to investors.

Distributions and NAV

7A.104 In most UTS that have unit prices that fluctuate in line with NAV (e.g. where UTS does not have a fixed unit price of RM1.00), the effect of declaring and paying a distribution to unit holders in UTS is to reduce the NAV of UTS by exactly the same amount as the distribution. In other words, the payment of a distribution is not a ‘bonus’.

Example:
Assume the directors of UTMC of ABC Growth Fund declare a distribution of 10 sen per unit. The Fund's NAV is RM180 million and there are 100 million units in circulation.

Is a unit holder wealthier following the payment of the distribution?

Table 7A.4: NAV per unit before and after the distribution

NAV before the distribution	RM180,000,000
Units in circulation	100,000,000 units
NAV per unit before the distribution	RM1.80

NAV after the distribution (RM180,000,000 – RM10,000,000)	RM170,000,000
Units in circulation	100,000,000 units
NAV per unit after the distribution	RM1.70

7A.105 A unit holder in UTS, after receiving a distribution, would find that the NAV of his or her investment falls by the amount of that distribution. The following table shows the unit holder's position before and after the distribution payment assuming the unit holder owns 1,000 units in the UTS:
Table 7A.5: A unit holder's position before and after a distribution

Before distribution payment	After distribution payment
$NAV\ for\ 1{,}000\ units$ $= 1{,}000\ units * RM1.80\ per\ unit$ $= RM1{,}800$	$NAV\ for\ 1{,}000\ units$ $= 1{,}000\ units * RM1.70\ per\ unit$ $= RM1{,}700$ $Distribution\ received$ $= 1{,}000\ units * 10\ sen\ per\ unit$ $= RM100$

7A.106 In a listed UTS, too, the NAV of UTS should fall as the distribution is declared and theoretically, the market price of a unit should fall by the same amount. However, and as with all securities listed on a stock market, the market price of units reflects the actions of buyers and sellers and the market price may fall or rise by more than this amount.

7A.107 In a fixed price UTS, the net income earned by UTS is accounted for by UTMC separately from the NAV (or capital value of a unit). Consequently, when UTS income is paid out to unit holders as a distribution, there is no effect on NAV per unit.

Measuring Performance

7A.108 Investors expect investment in UTS to provide returns better than those of relevant benchmarks, e.g. interest in bank deposits, FBMKLCI movements, competitor UTS returns, etc. The correct measurement of investment performance is therefore very important.

7A.109 Analysis of UTS performance can be difficult because of the different ways investment performance can be measured. When making performance comparisons, it is important to ensure that the investment methodology has been consistently applied.

7A.110 There are many different ways to express investment returns and it can become quite confusing, especially when returns over various time periods are measured. Returns can be legitimately calculated in a number of ways, and this can create confusion.

7A.111 In order to properly assess UTS investment performance, it is important to standardise the measurement of investment performance. Common forms of expressing returns in relation to UTS include:

Raw return

7A.112 Raw return is the investment return that measures the total return achieved by holding an investment over a particular period.

<u>Example:</u>

An investment purchased in 1994 for RM1.00 and sold in 2004 for RM2.00 is said to have produced a raw return of 100%. If the investment had instead been sold in 1999 at the same price, the return is still 100%.

7A.113 The problem with raw return is that it is difficult to compare returns over different periods. 100% earned by UTS over a five-year period is clearly a much better return than a return of 100% over a 10-year period - but how much better? And how do these returns compare with a UTS that has returned 55% over six years?

Compounded annual return

7A.114 Compounded annual return shows the annual compound rate of return achieved by an investment over its holding period. In the previous example, the former annual compound rate of return on the investment would be 14.9% per annum (e.g. per year) over the five-year period, and the latter 7.2% per annum (e.g. significantly lower) over the 10-year period. A UTS that produced 55% total return over six years produced an annual return of 7.6% per annum.

7A.115 Compounded annual return is superior to the raw return since it adds a more meaningful, and standardised, time dimension to the measurement of investment performance. Also, most investors are familiar and comfortable with the term ‘per cent per annum’ and the difference between ‘simple’ and ‘compound’ interest. Most interest rates for fixed deposits and borrowings over one year are expressed as rates per annum and are calculated on a compound interest basis.

7A.116 Since benchmarks, such as the FBMKLCI and one-year fixed deposit rates, are normally expressed as an annual rate of return, comparison with UTS performance measured in the same way is valid, e.g. we are comparing 'apples with apples'.

7A.117 Compounded annual return is therefore a more useful tool in measuring and comparing investment performance.

How is UTS performance measured in Malaysia?

7A.118 Investment performance is measured in terms of the total return received from an investment over the holding period. Total return is the difference between the amount the investor invests and the amount he or she receives on disposal of the investment, plus any income (or other entitlements) received during the period of ownership of the investment.

7A.119 In measuring the performance of UTS, a number of issues arise. Total returns from investing in UTS are affected by fees - both initial service charges (a 'one-off' fee), and management and other expenses (which are on-going). The impact of these on performance, particularly an initial service charge, can be significant.

7A.120 The initial service charge only impacts the investor who pays it, and it is not an amount that is available to UTMC to invest in accordance with UTS investment objectives. If we are trying to assess UTMC's ability to invest, should we therefore ignore initial service charges? From an investor's perspective, total returns should almost certainly be calculated after all charges and expenses - especially if they are to be compared with other investment opportunities that do not incorporate any fees, for example, fixed deposit rates. However, initial service charges are much more significant to total returns over shorter periods than over longer periods when they tend to become relatively insignificant.

7A.121 Generally, UTS performance tables exclude the cost to the Investor of investing in a UTS but do incorporate the effect of management and other expenses.

7A.122 Refinitiv Lipper and Morningstar produces UTS performance tables for the unit trust industry. Both are highly regarded international research houses who produce performance tables and other data and conduct research into collective investments throughout the world.

7A.123 The performance tables divide UTS into categories in order to provide more meaningful comparisons. The categories are broadly as described in Chapter 2 of this study guide which include Equity fund, Money Market fund, Fixed Income fund etc.

7A.12 Refinitiv Lipper measures UTS performance by taking the NAV of UTS at the beginning and end of a period and adjusts this for any distributions (and unit splits) that Investor would become entitled to during that period. Morningstar computes the performance over a period by comparing the buying prices of units in UTS at the beginning and end of a period. An adjustment is also made to distributions (and unit splits) during the period. Both NAV and buying prices exclude the impact of initial service charges. These slight differences in approach become insignificant over reasonable periods.

7A.125 The distributions received by an investor during the measurement period are assumed by both organisations to be reinvested in additional units in UTS. The investment return of an Investor, who receives distributions that are not reinvested, will therefore not be the same as those shown in the UTS performance tables. However, treating distributions in this way is consistent with accepted practice in calculating returns in the share market, and in most share market indices.

7A.126 Both Refinitiv Lipper and Morningstar's UTS performance tables calculate total returns over a specified period rather than convert the total returns to an annual compound rate of return. This may make the returns more difficult to compare to returns from other investments - particularly fixed income securities and EPF rates of return.

<u>UTS performance tables</u>

7A.127 The investment performance of UTS is presented in the form of a performance table. Performance tables are extremely useful in that they summarise the performance of the whole unit trust industry in a single table over standardised periods, and on a consistent and objective measurement basis. The performance tables may incorporate the performance of relevant benchmarks for comparison purposes.

7A.128 In many countries, the performance tables alone provide the basis for selection of UTS, such is the perceived significance of the information contained in the tables.

7A.129 UTS performance tables usually include a number of elements relevant to the measurement of UTS performance:

<u>Total return over various time periods</u>

7A.130 Performance tables for UTS commonly present standardised performance metrics over one, three and six months; and one, three and five years (or longer in some cases). One drawback of UTS performance tables is that they can cause Investors and UTS Consultants to focus on the short-term performance of UTS. Short-term performance is a measure of how UTMC has coped with recent market conditions, but this may not be relevant over the time period for which UTS is purchased. If UTS is to be held for say, five years or more, is its performance over one, three or even 12 months relevant? Performance over long periods show how UTMC have invested UTS over a range of market conditions and economic cycles. This may be more relevant to a long-term investor than performance over the short term.

<u>Rankings and quartiles</u>

7A.131 Once the performance of each UTS Is measured over various time periods, it is logical and useful to present them in a ranked order. UTS are typically ranked from highest (best-performing) to lowest (worst-performing) over a given period. The best-performing UTS over a specific period is assigned Rank 1, the second-best UTS is Rank 2, and so forth. The total number of UTS ranked is also provided to give investors context on where a particular UTS stands relative to its peers.

7A.132 To assist investors interpret UTS performance rankings, some performance tables are categorised into quartiles. A quartile represents 25% of the total UTS measured over a given period. As such, a 'top quartile' UTS is one that ranks in the top 25% of UTS measured over the period. A second quartile UTS ranks in the second 25%, and so on. Being 'bottom' or 'last' quartile is a position that UTMC will clearly try to avoid a UTS falling into but, of course, some UTS must be placed in the last 25% of all UTS measured - even if their total returns are good.

7A.133 We have seen that it is important to compare 'apples with apples', and it is common for UTS performance tables to group UTS with similar investment objectives. This means that rankings and quartiles become more relevant and useful.

Funds under management

7A.134 Funds under management (usually referred to in UTS performance tables as 'fund size') are often provided for each UTS. This may be helpful in assessing UTMC performance as it is sometimes the case that UTS of a larger fund size performs differently than UTS with a smaller amount of funds under management. The same may be suggested of UTMC with different amounts of funds under management.

Benchmarks

7A.135 While it is useful to rank similar UTS and to divide them into quartiles, it can also be helpful to incorporate into the performance tables the total return or 'performance' of a relevant benchmark such as the FBMKLCI, interest rate, and sometimes the inflation rate. The performance of individual UTS or the 'average' UTS (e.g. the middle-ranking UTS, or the average return of all UTS) can then be compared with other UTS or benchmarks, for marketing and other purposes.

7A.136 It is sometimes difficult to choose the most appropriate benchmark against which to compare and analyse UTS performance, especially those UTS with more complex investment objectives.

7A.137 For example, an equity UTS would tend to use one of the indices produced by Bursa Malaysia as a benchmark. However, a balanced UTS with elements of cash, fixed income, equities and property would make the selection of a relevant benchmark much more difficult.

Risk measures

7A.138 Two UTS with similar investment objectives may produce identical investment performance over the same period. However, the UTMC of one UTS may have taken fewer risks than the other in achieving a similar return. Clearly, the UTS that achieved the return whilst taking fewer risks is more superior. In recent years, UTS performance tables have increasingly considered this aspect of quantitative measurement of performance.

7A.139 While a detailed understanding of risk lies outside the scope of this book, it is relevant to see how some Malaysian UTS performance tables assess this aspect of UTS performance.

7A.140 As an indicator of risk, Refintiv Lipper and Morningstar assess UTS potential for losses by calculating, standard deviation of UTS performance over the last three years.

7A.141 Standard deviation is one of the statistical measures of the volatility (or variation) of UTS performance compared to the average performance over the period. UTS with a lower standard deviation is less risky than those with a higher standard deviation.

7A.142 FIMM issued IMS 9 – Measuring and Disclosure of Return Volatility for Schemes and Recognised Funds, with the aim to prescribe a standard format in measurement and disclosures of return volatility in order to provide investors with, at the first instance, information regarding volatility characteristics of the UTS and recognized funds.

Weaknesses of UTS performance tables

7A.143 Care should be exercised by UTS Consultant and others who use UTS performance tables.

7A.144 It should be remembered that, while the performance tables are factually correct, they are based on historical quantitative information. Several studies of UTS investment returns have shown that 'past performance is not an indicator of future performance'. Therefore, considerable care should be used in using UTS performance tables in selecting UTS for investment, or for a decision to dispose of UTS.

7A.145 Further, while the historical results shown may be accurate, they are subject to a number of potential weaknesses. For example, because returns over one, three and five years, are measured to the same end period, they are sensitive to the more recent returns achieved. A good one-year return will also boost the returns over three and five years, perhaps resulting in the appearance of a more consistent longer-term performance. A top ranking UTS over three years, for example, may have performed exceptionally well over only the last three months, which compensated for abysmal performance over the preceding 33 months.

7A.146 The returns shown in UTS performance tables for a particular period will not show that the returns achieved by UTS perhaps came from investment in only one or two highly successful companies, e.g. very high risks were being taken by UTMC. In a bull market, the ability of UTMC to obtain large allocations of initial public offerings can considerably boost UTS performance - especially in comparison with an index that may not initially include those companies. Is this a fair reflection of UTMC investment skill?

7A.147 Over longer periods, it is also quite likely that those fund managers responsible for the track record of UTS have changed. Is it reasonable to consider past UTS investment performance when those responsible for achieving it are no longer employed by UTMC?

7A.148 As a result of these - and other - concerns, research houses have started to examine other factors that may be relevant to the assessment of investment performance of UTS.

<u>Consistency</u>

7A.149 We have seen that the performance of UTS can be very sensitive to the period that is selected for measurement. UTMC may select a highly successful investment period to report on UTS performance in advertising and promotional materials, so such claims should be carefully considered.

7A.150 Of more significance to long-term Investors is the consistency of a UTS's performance over a range of time periods. If UTMC has produced consistently above average UTS performance for the past three, six and 12 months, as well as the past three years and five years since launch date, then the track record may indicate that they are likely to produce the same superior results in the future. UTMC whose UTS produce, historically, more variation in returns may not be as reliable in the future as the historically consistent performer.

7A.151 However, we must stress that past performance is not necessarily indicative of future performance. But it does show how a UTS has performed against competitor UTS in both good and bad times. Long-term investors look to invest in UTS that performs well throughout all market cycles. After all, most equity UTS tend to perform well when the stock market is going up. It is UTS that outperforms competitors when the market is not performing well that deserves consideration. Investors should therefore look to invest in those UTS that have consistently outperformed the relevant benchmark and competitor UTS over reasonable periods.

7A.152 The Morningstar's Star Rankings (which are part of its UTS performance tables) is one method of evaluating the consistency of UTS performance. Based on the performance of a single UTS relative to its competitor (peer) UTS, the Star Rankings are awarded to UTS on the basis of consistency in outperforming competitor UTS.

<u>Qualitative factors</u>

7A.153 The qualitative analysis of UTS performance is complementary to quantitative analysis. It involves obtaining an understanding of how a UTMC operates, the investment process, the structure of the organisation, and its people. The objective of qualitative analysis is to review the performance of UTS based on an understanding of the factors that may have contributed to measurable, historical returns.

7A.154 A qualitative analysis of UTMC will include such elements as:

(a) UTMC credibility. Who is the UTMC? Who is its parent company? Are they both credible organisations? What affiliations do they have? Are the senior management - particularly the fund managers - qualified to fulfil their responsibilities and obligations?

(b) Investment management style. What is the investment management style of the fund managers? Are they constantly looking for quick profits, resulting in high portfolio turnover? Or are they 'growth' or 'value' investors? Are they speculative in their investment choices or is the investment process structured and subject to rigorous scrutiny and ongoing development? Do they rely on their own research or the advice of brokers?

(c) Service aspects. Is the UTMC responsive to investors' demands and requests? Are the UTMC business processes geared to providing above average service? Are they committed to the unit trust industry and investing in administrative and customer service systems?

7A.155 Following a review of such qualitative factors, some research houses are recognising (often through the award of stars on a scale of, say, one to five) UTS that are expected to achieve the investment objectives set by UTMC. Investors can then better assess competing UTS before investing.

7A.156 UTS performance tables published by research houses endorsed by FIMM can be a useful tool for monitoring investment performance. However, UTS Consultant should be aware that the information they provide is only one of the factors that should be considered in making a decision to invest in UTS.

Operational Aspects of Shariah-Compliant UTS

7A.157 As mentioned in Chapter 2 of this study guide, a Shariah-compliant UTS is quite similar to the conventional UTS, it must be noted that they key difference is the activities relating to the Shariah-compliant UTS must comply with Shariah requirements. Shariah-compliant fund's deed and prospectus must be drafted in accordance with Shariah requirements. Terminologies used in conventional deed and prospectus which are not in line with Shariah such as interest-based instruments and interest income must be avoided.

7A.158 The objective of a Shariah-compliant UTS is to achieve both capital and income growth within the scope of Shariah. Hence, the investment strategy would also need to be aligned with the objective of a Shariah-compliant fund. Further, UTMC that operates and manage a Shariah-compliant UTS must ensure that the excess funds, such as liquid assets and cash, are placed/invested in Shariah-compliant instruments.

7A.159 The compliance manager/officer must ensure that all daily operations comply with all the requirements of the SC as well as Shariah. To assist the compliance manager/officer in ensuring that funds are managed and administered in accordance with Shariah requirements, UTMC offering Shariah-compliant UTS are required by the SC's Guidelines on Unit Trusts to appoint a Shariah Committee / Shariah Adviser to supervise and provide necessary advice to ensure that the Shariah-compliant UTS offered to the public is managed and administered in accordance with Shariah requirements.

7A.160 Similar to conventional funds, UTMC are also required to publish and distribute fund reports for Shariah-compliant UTS to the unit holders. This report provides the Shariah adviser opinion whether the fund has been operated and managed in accordance with the applicable guidelines, ruling or decision issued by the SC pertaining to Shariah matters and a statement to the effect that the investment portfolio of the fund comprises instruments that have been classified as Shariah compliance by the SAC of the SC or the SAC of BNM.

7A.161 For instruments not classified as Shariah-compliant by the SAC of the SC or SAC of BNM, a statement stating that the status of the instruments has been determined in accordance with the ruling issued by the Shariah adviser. Further description on Shariah compliance review and procedures for disposal of Shariah non-compliant securities is covered in Chapter 2 of this study guide.

Relationship between parties in Shariah-Compliant UTS

7A.162 In addition to the common structure of UTS described in the earlier section of this chapter, UTS Consultant must also be aware of the relationships between parties in a Shariah-compliant UTS. These relationships are established based on certain Shariah contracts. These Shariah contracts reflect the type of obligation and responsibilities of the parties. Four Shariah contracts are applied in a Shariah-compliant UTS, which are elaborated in the following table:

Table 7A.6: Relationship between parties in Shariah contracts

Parties	Shariah Contracts
Among Unit holders	**Musharakah** contract exists between the Investors (Unit holders) to deal with specified investments, with the view that the profit derived would be shared among them according to capital contribution or any other agreed profit-sharing ratio. A loss will be shared based on capital contribution.
UTMC and Trustee	As there is no direct relationship (and due responsibility) between both parties, therefore no contract exists between them. However, both are agents of the Unit holders.

Parties	Shariah Contracts
Unit holders and UTMC	1. **Wakalah** (agency) The UTMC is acting for and on behalf of Unit holders to invest and manage the UTS. 2. **Bai** Contract of sale and purchase executed between the unit holders and the UTMC, which is usually on cash payment basis. 3. **Wadiah Yad-Dhamanah** (guaranteed custody) • Prior to the creation of units • The owners of the units are the Unit holders; the custodian is the UTMC. • The contract will take place when the UTMC receives payment for the investment.
Unit holders and Trustee	1. **Wakalah** (agency) • Where the Trustee is acting for and on behalf of Unit holders to be the custodian of the trust funds and to safeguard the interests of unit holders. 2. **Wadiah Yad-Dhamanah** (After the units are created) • The owners of the units are the Unit holders, the custodian is the Trustee and the units are all the assets of the fund in the form of monies and other forms of investments. • The contract exists once the Unit holders purchase the units and the depositing of investments by the UTMC with the Trustee.

Borrowing to Invest in UTS and the Risks Associated with Loan Financing

7A.163 Chapter 2 of this study guide covers the methods of investing which include lump sum purchase, reinvestment of units and regular savings. Another method of investing is borrowing or loan financing which is allowed for UTS investment but not for investment in PRS. However, due to the risks associated with loan financing, this method of investing is not encouraged.

7A.164 To maximise potential investment returns, some investors investing in the UTS borrow the application money to invest, with the expectation that the rate of return from investing in the UTS will exceed the borrowing costs, thus giving rise to additional profit. This is known as leveraging (or gearing) an investment in the UTS.

7A.165 Lenders usually require investors to have some of their own money to invest alongside the borrowed application money. The technique allows a small amount of an investor's savings plus a borrowed amount to be invested into the UTS. The investor is, in effect, using the lender's funds as well as his or her own to gain exposure to the desired investment. Using someone else's funds comes at a cost -

lenders charge interest, and other charges and fees may apply.

7A.166 The leveraging effect refers to the potential for investors to earn greater returns than they could have achieved if they had restricted their investment in the UTS to their own savings only.

7A.167 However, there is a very significant potential downside. The value of the investment in the UTS could fall, for example, in line with a falling stock market. Whilst the value of the investment in UTS may decrease, the amount of the loan taken out to finance the purchase of units remains constant (and may increase with the accumulation of interest payable). If the value of the investment in the UTS declines and the amount of the loan is increasing, an investor's savings can be eroded and the Investor will need to sell his or her units at a loss, or increase the security offered to the lender. If the units are sold at a loss, the investor will be required to repay the difference between the proceeds of disposal of the UTS and the amount of the loan out of their other savings.

7A.168 Most banks and finance companies in Malaysia offer borrowing facilities to investors who wish to leverage their investment in the UTS. Loans are generally for periods of up to 10 years at interest rates generally higher than personal finance and housing loans (depending on the borrower). The interest amounts usually range between a minimum of RM10,000 and a maximum of RM250,000. The rate of interest usually varies based on the lender's Base Rate, Base Lending Rate (for conventional loan) or Base Financing Rate (for Islamic loan) plus a margin.

7A.169 The maximum loan-to-valuation ratio or margin (e.g. the amount of finance offered compared to the cost or value of the investment in the UTS) is 67%. This means that an investor who wishes to invest RM100,000 in the UTS could borrow up to RM67,000.

7A.170 Borrowers must be over 18 years and should be less than 55 years at the end of the term of the loan. This is to ensure that the borrower is within the income-earning age group. Monthly loan repayments do not normally exceed one-third of the borrower's gross monthly income to ensure that the borrower is able to meet his or her other financial obligations.

7A.171 The SC requires that the UTS Provider to ensure that Consultants do not, directly or indirectly, encourage the sale of units through loans. Loan financing for UTS is therefore normally provided by a panel of UTS-approved lenders. The SC has imposed a number of requirements relating to loans and the UTS, including the need for an investor to sign a Unit Trust Loan Financing Risk Disclosure Statement, reflecting the risks of investing in the UTS with borrowed funds.

Risks of borrowing to invest in UTS

7A.172 Should an investor borrow to invest in UTS? Each investor's position is unique, making generalisations difficult to make. Prospective investors must carefully consider the implications of investing with borrowed funds before committing themselves to a loan. If the investor doesn't understand investments in UTS and the financing arrangement, he or she should not borrow.

7A.173 The following paragraphs provide further explanation on the risks associated with borrowing to invest.

Interest rate fluctuations

7A.174 Interest rates for the loans are usually variable rates, e.g. the borrower is subject to the changes in the lender's Base Rate, Base Lending Rate (for conventional loan) or Base Financing Rate (for Islamic loan). The total cost of financing an investment in UTS cannot therefore be predicted. This increases the uncertainty about the expected profits to be derived from the UTS given the interest due for borrowing.

Default in repayment of loan

7A.175 Where there is a default in repayment of the loan (which may be on a regular monthly payment basis), the lender is entitled to liquidate the investment in the UTS. Action may be taken with or without the consent of the borrower. Units may be sold by the lender at a time that is determined by the lender (which may be at the lowest point in the market cycle), e.g. the borrower loses control over the decision to sell units. Any shortfall between the proceeds from disposal of units and the amount of the loan must be paid by the investor.

Premature repayment of loan

7A.176 Borrowing for investment in UTS is a long-term commitment - the loan period may be up to 10 years. Due to unforeseen circumstances, e.g. loss of employment, the borrower may wish to repay the loan before the agreed repayment date.

7A.177 Premature repayment may adversely affect the expected returns from investment in UTS. Research shows most loans that are repaid within the first five years of the agreed loan period, e.g. before the investments in the UTS generates good returns will suffer more losses than gains. Studies have shown that, on average, the probability of losing money in an investment in the stock market (e.g. Bursa Malaysia) can be up to 35% in any one year, 28% over two years, and 21% over five years. Investors may therefore face a high risk of losing capital if they repay the loan earlier than expected and dispose of the units in the UTS.

Margin call

7A.178 The value of UTS may vary from time to time. As a result, lenders may find that the value of the units in the UTS that are held as security (collateral) for the loan provides them with insufficient margin of security over the amount of the outstanding loan. The lender will then ask that the borrower to 'top up' the level of security, e.g. a margin call will be made on the borrower. Failure to pay the additional amounts on top of your normal installments can cause the lender to force sell units in the UTS held as security, possibly at the worst time, to reduce the amount owed.

7A.179 It may be more prudent for Consultants to suggest to clients that the regular savings method is a more appropriate way of investing in UTS than borrowing money.

PRACTICE QUESTIONS

Question 1

What is the main role of a Trustee?

(A) Administers the operations of an UTS
(B) Invests monies in authorised investments
(C) Safeguards the assets of the UTS and the investors' interests
(D) Regulates the operations of an UTMC

Answer: (C)

Question 2

Assume the NAV of XYZ Equity Fund is determined as RM78,896,540 and that there are 96,500,000 units in circulation. Also assume that no transaction cost factor applies as transaction costs are not material.

What is the selling and repurchase prices of a unit by rounding up the unit prices to four decimal places?

(A) RM 1.2231
(B) RM 0.8176
(C) RM 0.6112
(D) RM 2.3154

Answer: (B)

Question 3

XYZ Equity Fund - Pricing	
Date	**NAV**
17 August 202X	RM 0.9132
18 August 202X	RM 0.9218
19 August 202X	RM 0.9311
20 August 202X	RM 0.9391

XYZ Equity Fund's valuation point is at 4pm every business day. Ali wishes to invest in the fund and submits request on 18th August 202X at 2pm. What is the correct valuation for Ali's investment?

(A) RM 0.9132
(B) RM 0.9218
(C) RM 0.9311
(D) RM 0.9391

Answer: (B)

CHAPTER 7B

FEATURES AND OPERATIONS OF PRS

Learning Objectives

This chapter focuses on the basics of the Malaysian pension and retirement system, the World Bank's multi-pillar pension framework and the need for Malaysia to develop the private pension industry.

At the end of this chapter, you should be able to understand and describe:

- The current state of the Malaysian pension and retirement landscape and its key players
- The World Bank's five pillars framework for pensions and how it applies to the Malaysian context
- The objectives and benefits of PRS
- PRS framework
- The role and function of PPA
- Components of PRS
- Advantages of PRS over other retirement products
- PRS structure
- Salient operational aspects of the PRS, which includes:
  - Vesting
  - Pre and post-retirement withdrawal
  - Switching between funds
  - Transfer between PRS Providers
  - Fees and charges
  - Dealing in units
  - Unit Pricing
  - Calculation of NAV
  - Creation and Cancellation Prices
  - Forward Pricing and Valuation
  - Unit Splits and NAV
  - Distributions and NAV
  - Measuring Performance
  - Shariah-compliant PRS

INDUSTRY COMPETENCY FRAMEWORK

Competency Level

1. Functional Competency (Technical) – FUT09 Valuation (Level 2)
2. Functional Competency (Process) –
   i. FUP11 Investment Product Management (Level 2)
   ii. FUP09 Fund Management (Level 2)

The Malaysian Pension and Retirement Landscape

7B.01 The Malaysian pension and retirement landscape may be categorised along two distinct lines:

(a) Public Sector versus Private Sector Pension Schemes; and

(b) mandatory versus voluntary Pension Schemes.

Public Sector and Private Sector Schemes

7B.02 Public Sector Schemes are defined benefit plans in which the beneficiaries do not contribute at all to their retirement.

7B.03 Two examples of the Public Sector Schemes are the Kumpulan Wang Persaraan (Diperbadankan) (KWAP) and the Lembaga Tabung Angkatan Tentera (LTAT). The KWAP provides pensions and other benefits for retired civil servants while the LTAT provides the same for retired armed forces personnel.

7B.04 On the other hand, Private Sector Schemes are defined contribution schemes where there is a direct linkage between the amount contributed, the returns of these contributions and the resultant pension nest egg.

7B.05 Two examples of Private Sector Schemes are the EPF and the Employer- Sponsored Retirement Schemes. The EPF is governed by the Employees Provident Fund Act 1991 (EPF Act) and reflects the contributions of both employee and employers. The Employer-Sponsored Retirement Scheme refers to a Retirement Scheme established by a corporation in order to provide benefits to employees of that corporation or for its related corporation. It comes under the purview of Section 150 of the Income Tax Act 1967 (Revised-1971) which provides a tax incentive for employers to contribute towards their employees' retirement savings.

Mandatory and Voluntary Pension Schemes

7B.06 **Mandatory Pension Schemes** are retirement schemes that are mandated by law. In Malaysia, all private sector employees must participate in the EPF Scheme by contributing a portion of their salary (as of year 2025 the contribution is mandated at 11%) towards their retirement savings. The savings can be withdrawn at retirement age while a portion of it can only be withdrawn under specific circumstances.

7B.07 **Voluntary Pension Schemes,** as the name suggests, are retirement schemes that are voluntary and unlike the EPF, the minimum contributions to the voluntary schemes are not mandated by law. Currently, an example is the Employer-Sponsored Retirement Scheme. The purchase of annuities qualifies as voluntary schemes. The PRS initiative falls under this category.

The Adequacy of Individual Retirement Savings

7B.08 The average retiree in Malaysia faces the real issue of adequacy of retirement savings and whether these savings will last, given the uncertainty of life expectancy and capital erosion with inflation. The tables below illustrate the amount needed to sustain a suitable life-style post-retirement.

7B.09 Amount of lump sum needed at the onset of retirement, assuming a life expectancy of 20 years post-retirement and an ability to invest the lump sum at 2% per annum:

Table 7B.1: Lump sum amount needed at the onset of retirement

Amount required per month in retirement	Amount needed at the onset of retirement
RM2,000	RM392,434.40
RM3,000	RM588,651.60
RM4,000	RM784,868.05

7B.10 The table below shows the amount of savings per year needed to achieve the lump sum above, given the years available to save (until retirement) and assuming the individual can invest and compound the savings at 4% per annum:

Table 7B.2: Amount of savings per year needed to achieve the lump sum amount in Table 7B.1

Monthly saving requirement	Years available to save			
	30 years	20 years	15 years	10 years
RM2,000	RM6,997	RM13,179	RM19,599	RM32,686
RM3,000	RM10,495	RM19,768	RM29,398	RM49,029
RM4,000	RM13,994	RM26,357	RM39,197	RM65,372

7B.11 So for example, an individual who is 40 years old and wants to retire in 15 years' time with a retirement income of RM3,000 a month would need to save RM29,398 a year, assuming he can invest this at 4% per annum over the next 15 years while saving for retirement. Changing the variables such as the time to accumulate the savings, the investment interest rates and the required retirement income would of course change the calculation, but the crux of the matter is that there is a need for an individual to put aside a substantial amount of savings to achieve a post-retirement lifestyle that is acceptable.

7B.12 Hence, there is a necessity to prepare appropriate retirement savings plans so that the individual will have a sufficient nest egg come retirement. This nest egg should be made up of mandatory savings of the EPF and supplemented with Voluntary Schemes like the PRS. Both are necessary to ensure sufficient retirement savings. The EPF will provide the minimum savings and the PRS will help maintain a lifestyle that the retiree desires.

7B.13 To determine the required income for the retiree, there is a need to understand the "income replacement ratio" which is the percentage of working income that an individual needs to maintain the same standard of living in retirement. This ratio is usually between 60% and 90% of the working income before retirement. A retiree who attains this replacement ratio through a combination of EPF withdrawal and current income through investments like the PRS and fixed deposits will be in a comfortable state come retirement.

The World Bank's Pension Conceptual Framework and Malaysia Pension Landscape

Diagram 7B.1: World Bank's Pension Conceptual Framework

WORLD BANK'S PENSION CONCEPTUAL FRAMEWORK				
Base or Social pension	**Public pension plans that are publicly managed**	**Occupational/ personal pension plans**	**Voluntary personal pension schemes**	**Non-financial arrangements / informal support**
0	I	II	III	IV
State	Mandatory	Mandatory	Voluntary	Voluntary
MALAYSIA PENSION LANDSCAPE				
Department of Social Welfare-Senior Citizen Financial Aid		• LTAT • EPF • Civil Servant Pension Scheme	• PRS • Annuity • Employer-sponsored Retirement Scheme	

The World Bank's five pillars framework

7B.14 The World Bank's policy framework applies to a five-pillar model when evaluating a country's pension and social security reform efforts. The World Bank is of the view that a multi-pillar approach provides more flexibility and is therefore better able to address the needs of the target segments of the population as well as provide a better safeguard against any economic, political and demographic risks faced by a specific pension system.

The five pillars in the Malaysian context

7B.15 The following section conceptualises the World Bank multi-pillar framework within the Malaysian context.

A non-contributory “pillar zero”

7B.16 The World Bank sees this as general social assistance financed and provided by the local or national government to ensure people with low lifetime income are basically cared for in their old age.

7B.17 In Malaysia, the Social Welfare Department provides financial aid to low-income citizens, and this includes old age financial aid on a means test basis.

A mandatory “first pillar”

7B.18 This pillar aims to link contribution to varying degrees of earnings with the objective of replacing some portion of lifetime pre-retirement income. These defined benefit plans are usually financed on a pay-as-you-go basis and subjected to demographic and political risk.

7B.19 This pillar of the pension framework is not available in Malaysia but an example of this “first pillar” would be in Japan where employees pay a portion of their income to the national pension system which aims to provide a “basic pension” to all residents in Japan. The basic pension for the elderly is payable to a pensioner at the age of 65 if the person has paid premiums for 25 years or longer.

7B.20 This pillar is said to be subjected to demographic risks because, as our example in Japan shows, the rapidly greying population puts enormous strain on the funding. With fewer and fewer younger employees to support the growing number of pensioners, there is a shortfall in contributions to meet pension disbursements and there is considerable pressure on the government to help fund the pension system.

A mandatory “second pillar”

7B.21 This is typically an individual’s savings plan e.g. a defined contribution plan where there are wide options in investment vehicles, investment managers and withdrawal phase selections. Defined contribution plans provide the individual with a clear link between contributions, investment performance of the savings and end benefits.

7B.22 In Malaysia, this pillar includes the EPF, the KWAP and the LTAT.

A voluntary “third pillar”

7B.23 This pillar can take many forms (defined benefit or contribution plans, individual savings plans) but it is essentially discretionary and flexible. This third pillar’s flexibility compensates for the rigidity of the other pillars and allows the individual to complement whatever is perceived to be lacking in the individual’s retirement planning.

7B.24 For Malaysia, this is where the PRS will be the feature. Other Schemes under this pillar include the private investment/saving Schemes for individuals (unit trusts, fixed deposits and insurance products), Employer-Sponsored Retirement Scheme approved under Section 150 of the Income Tax Act 1967 (Revised-1971), additional contributions to the EPF, annuities and unfunded occupational gratuity scheme.

7B.25 The PRS is being introduced to supplement EPF savings (for employed persons) and other second pillar schemes. Although the EPF can be considered an unqualified success with comprehensive coverage for the employed sector and with healthy returns over the years despite the global financial crisis, it is not mandatory for the self-employed. Amongst the aims of PRS is to encourage this segment of the population to start saving earnestly for their retirement.

7B.26 Furthermore, studies have shown that most retirees exhaust their EPF lump sum within three (3) to five (5) years of their retirement. This over-reliance on the EPF savings for their retirement needs is further exacerbated with leakages from their EPF savings with pre-retirement withdrawals for housing, healthcare and education. The PRS would encourage the pensioner to save more in an alternate source of scheme to provide diversity of income streams.

7B.27 The PRS will also alleviate the concentration risk of the retirees who have relied on one primary source for their retirement savings. The PRS will provide an alternate source of fund management expertise and one where members of the Scheme are able to freely choose between competing service providers.

<u>A non-financial “fourth pillar”</u>

7B.28 The World Bank defines this as access to informal support such as family financial support by the younger generation, other initiatives or programmes such as universal healthcare, subsidised elderly housing/retirement homes, home ownership and availability of reverse mortgages.

7B.29 For Malaysia, this pillar relies mainly on traditional Asian values where the young are expected to care for parents and elders.

Key Players and Components

Employees Provident Fund (EPF)

7B.30 The EPF is intended to help employees primarily save for retirement by procuring a percentage of each member’s monthly salary and storing it in a savings account. Employers also contribute a specific percentage to the fund to meet their legal and moral obligations to safeguard and enhance the members’ retirement savings.[6]

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[6] For more details on statistical data EPF member contribution, kindly refer to the EPF website for more details.

Table 7B.3: Permitted withdrawal from EPF

Age of Member	Permitted withdrawal from accumulated savings
50	Up to 30% of total savings (entire or part of Account 2 savings)
55	The entire or part of Account 55 savings
60	The entire or part of Account 55 savings and Account Emas

7B.31 Legally, the EPF is obliged to provide a yearly dividend of 2.5% on the savings in the member's account. This obligation applies to the conventional EPF account Members but not Shariah EPF (Simpanan Shariah) account members which is based on the actual performance of Shariah-compliant investments.

7B.32 Unlike the net asset value (NAV) for the PRS that will change every business day to reflect the latest changes in the underlying fund assets, the amount of savings in the EPF do not accrue any dividends until the dividends are declared by the EPF. Most of the EPF savings are invested in Malaysian Government Securities and other fixed income instruments (including private loans) but investments in equities is allowed. A portion of the EPF assets have also been invested overseas.

7B.33 The EPF members do have a choice of some diversification if they participate in the EPF Members Investment Scheme (EPF-MIS) which allows the EPF members to invest 30% of the amount in excess of the required basic savings in Account 1 with a unit trust management company appointed by the Ministry of Finance.

7B.34 The EPF is an occupational scheme and is tagged to employment under the EPF. Thus, persons who are self-employed would not contribute to the EPF and would not benefit from mandatory savings for retirement. As for year 2025, with the current 11% employee and 12% - 13% employer contributions to the EPF, an employed person saves at least 23% of their salary each month with this scheme.

7B.35 As of year 2025, the employer's share contribution for monthly wages of RM5,000 and below is 13% and for employees earning more than RM5,000 the rate is 12%. Further, those who are comfortable with the returns offered by the EPF can opt to increase their contribution per month over the mandatory rate of 11% by filling out a form with the EPF. This "extra" contribution may not be tax exempt if the total contribution amount is already above the tax relief limit.

7B.36 Over time, in the absence of a viable alternative to EPF, individuals who do not fall under the EPF would experience a significant difference in their retirement savings. The PRS is introduced to encourage all target groups, including the self-employed, to save more so as not to be disadvantaged compared to those under the EPF.

7B.37 EPF members are also encouraged to enroll in the PRS to supplement their EPF savings if these savings in the EPF are insufficient to provide for retirement. One thing to note is that the PRS and EPF contributions are not inter-changeable. Once contributed, the amounts stay with the respective schemes and these scheme will be managed separately. The PRS is also suitable for any Employer that wants to use it as a benefit to attract potential talents. The PRS is complementary to existing mandatory provisions.

7B.38 EPF i-Saraan (previously known as 1Malaysia Retirement Savings Scheme) is akin to the PRS in that it encourages those who are self-employed to contribute to a retirement plan but through the EPF. Once the contribution goes into the EPF, the self-employed will not have the liberty to decide the choice of the investments to their contributions akin to all EPF members.

7B.39 The EPF manages the fund both internally and externally through fund managers. Unlike the PRS, the EPF members cannot select the asset class, fund manager or the mix of funds for their contribution. There is also no daily NAV calculation posted on the EPF's website because all the contributions are commingled, and a dividend is declared at the end of the fiscal year. It is only then that the EPF member can assess the performance of the fund and manager.

Kumpulan Wang Persaraan (Diperbadankan) (KWAP)

7B.40 The Pension Scheme for civil servants was established under the *Government Pension Ordinance of 1951* and applies to government personnel who were eligible as of 12 April 1991. The Pension Scheme is intended to provide financial security for retired civil servants by paying them a monthly pension that reflects a percentage of their last qualifying salary.

7B.41 The monthly pension benefit is no longer offered to any civil servants after the date mentioned in Paragraph 7B.40 but the pension liability remains for those who joined the civil service before the said date and needs to be funded. The Pensions Trust Fund was established with the aim of funding the pension liability in 1991 with a launching grant of RM500 million from the Government.

7B.42 The KWAP was established on 1 March 2007 to replace the old Pensions Trust Fund and receives a minimum of 17.5% of each civil servant's salary each month as contribution from the Government towards financing its pension liability. There is no contribution at all from the individual civil servant as it is a defined benefit plan.

7B.43 The objective of KWAP is to manage the fund towards achieving optimum returns on its investments and shall be applied towards assisting the Government in financing its pension liability.

Lembaga Tabung Angkatan Tentera (LTAT)

7B.44 The LTAT was established in August 1972 by an Act of Parliament. The main aim of the LTAT is to provide retirement and other benefits to members of the armed forces (who are compulsory contributors) and to enable officers and mobilised members of the volunteer forces in the service to participate in a savings scheme.

7B.45 The secondary objective is to promote socio-economic development and to provide welfare and other benefits to retiring and retired personnel of the armed forces of Malaysia.

7B.46 Under the Superannuation Scheme, serving members of the armed forces are required to contribute 10% of the monthly salary to the LTAT and the Government being the Employer will contribute 15%.

Employer-Sponsored Retirement Schemes

7B.47 As part of a broader corporate social responsibility as well as to encourage Employee loyalty, some Employers have opted to provide their employees with a pension that is usually funded by Employer contributions above the required EPF percentage. These plans need to be approved and these schemes fall under Section 150 of the *Income Tax Act 1967 (Revised 1971).*

7B.48 These contributions by the employers (usually tax exempt up to a certain percentage – currently up to a maximum of 19%) vest immediately but can only be enjoyed at retirement in line with the EPF savings. These schemes are usually managed in-house, have a board of Trustees with specific investment and withdrawal rules and their funding is at the complete discretion of the employers.

7B.49 These schemes are only open to the employees of the company or group of companies. As mentioned earlier in the chapter, it is a defined benefit plan for the benefit of the employees and not a defined contribution plan like the PRS.

7B.50 This Employer-Sponsored Retirement Scheme must be established through a Trust Deed and rules of the fund, both of which must be clearly expressed, and both must also meet the strict requirements, some of which are stipulated below:

(a) there must be alienation of contribution to the fund e.g. the contributions made must be alienated from the contributors and be held by a third party which is the board of Trustees;

(b) payment of the retirement benefits can only be made when the employee reaches the retirement age of 55, retires early due to illness, dies or leaves Malaysia permanently; and

(c) the Scheme is required to follow the investment policy laid down by the IRB.

7B.51 The possible losses suffered by these Schemes during the recent economic crisis and the high costs of administrating such Schemes have resulted in many employers opting to migrate their Scheme to the EPF.

Annuities

7B.52 In an effort to encourage more retirement income, the public can take advantage of the tax incentives under the tax law to buy annuities offered by insurance companies. These annuities are contracts whereby the annuitant (the person who buys the annuity) receives a series of fixed payments at regular intervals (usually monthly) from the insurers until the death of the annuitant. Each annuity payment represents the repayment of a portion of the purchase price plus interest earned.

7B.53 The purchase price may be set at one go (a lump sum payment) or more likely in the context of saving for retirement, paid monthly/ annually over the working tenure of a person. Contributions must continue for the price of the annuity to be paid or the annuity may not provide the annuitant with the desired payment (after all, the annuity functions on the total contributions and stopped contribution disrupts the workings) at retirement.

7B.54 If an annuity is cancelled, the annuitant may get back the contribution less administrative and other charges and the person will have to start all over again later if he wants to buy another annuity.

PRS as Means to Address the Needs of Retiring Malaysians

7B.55 The current retirement landscape in Malaysia cannot fully address the needs of retiring Malaysians. Although the second pillar mandatory savings have provided the basis for retirement planning, solely relying on it would not be adequate to maintain a comfortable lifestyle post-retirement.

7B.56 The traditional fourth pillar which relies on the young to care for the elderly would only work in a society where there are many to support the few. In an increasingly greying/ageing population like Malaysia, the number of elderlies will increase exponentially with time and the burden on the fewer young people will be enormous. There is an impetus to find a self-sufficient solution.

7B.57 Hence, there is the need to develop the third pillar of voluntary savings. The government's initiative to promote the PRS through tax incentives highlights the urgency and the importance of getting the populace to think about their own retirement needs. With a national focus on more voluntary savings, the PRS is the platform to kick-start this initiative by providing a universal, flexible and tailored solution to the individual.

The Need for Retirement Protection

7B.58 Like the rest of the world, Malaysia will also be, in the coming years, experiencing a rapidly ageing population.

Table 7B.4: Ageing population and life expectancy in Malaysia[7]

Year	Below 15 years old	15-64 years old	Above 65 years old
2010	27.4%	67.6%	5.0%
2020 (estimated)	23.3%	69.7%	7.0%
2040 (expected)	18.6%	66.9%	14.5%

Year	Life expectancy (in years)	
	Male	Female

[7] For latest updates, kindly refer to the Department of Statistics Malaysia website from time to time.

1950s	56	58
2010	72	77
2020 (estimated)	73	77
2040 (expected)	78	83

Source: Department of Statistics Malaysia, Population Projections (Revised), Malaysia 2010-2040 (November 2016), Current Population Estimates, Malaysia 2020 (July 2020)

7B.59 The longevity risk has posed a great challenge to the adequacy of savings for retirement. This is further compounded by premature exhaustion of retirement savings in the early period of retirement, in view of the prevailing practice of lump sum withdrawal of the EPF contributions at the age of 55 and greater demands for a lifestyle post-retirement that is currently existing. This naturally necessitates an overall higher amount of savings to address this situation of funding one's lifestyle in the retirement phase.

7B.60 Furthermore, there is statistical evidence to suggest that the current amount of savings under the EPF and other Schemes under the mandatory "second pillar" is insufficient to last a retiree long into their retirement (with some studies showing that most run out of money within 10 years of their retirement).

7B.61 This is more so when the saver is wholly reliant on the EPF savings as the sole basis of retirement income and there is no alternate source of savings to supplement that income. To address this problem, four solutions are possible.

(a) Firstly, Malaysia is exploring whether to raise the mandatory retirement age which will allow a longer period for the employed to accumulate savings. Furthermore, with medical advances people are healthier and can work productively up to an older age.

(b) Secondly, it can increase the mandatory contribution rate under the "second pillar". This is not ideal as it puts an unnecessary strain on employers and increases the cost of doing business and can make Malaysia uncompetitive in the effort to attract and retain talent. Furthermore, this solution is not universal as only employees who are covered under the EPF or other "second pillar" schemes would benefit.

(c) Thirdly, it can consider raising the minimum wage over time if productivity allows so that the workers can benefit from a higher level of wages and hence savings both through the mandatory EPF and other voluntary schemes.

(d) Lastly, it can develop a voluntary retirement savings scheme under the "third pillar" in order to expand the range of retirement schemes, expand coverage on a voluntary basis to all segments of the population and improve the adequacy of retirement savings overall. Having a robust multi-pillar pension system would cater to the Malaysian society's varied retirement needs and would absorb the economic, demographic and political risks faced by the pension systems. The implementation of the PRS comes under this solution.

The Benefits of the PRS

7B.62 The PRS addresses certain sector such as the self-employed as it helps those who do not save now under the EPF. The adequacy of retirement savings is also tackled by the additional savings through the PRS Scheme. Additional or voluntary employer contributions add to the adequacy solution.

PRS is a transparent investment vehicle

7B.63 The Scheme is generally a transparent investment vehicle where the following information is disclosed upfront:

(a) all fees and charges (direct and indirect);

(b) investment mandate including investment objectives and strategy, investment limits and asset allocation;

(c) fund performance; and

(d) publication of annual reports as well as choice of PRS Providers and PRS Funds within each scheme.

7B.64 Any changes to the investment objectives or fees require the approval of the PRS members while some other less material changes require a supplementary disclosure document to be lodged. The portability feature of the PRS supports transparency as members need information to make an informed decision to change PRS Providers.

Provide a pool of funds to fund retirees during retirement phase

7B.65 This universal and inclusive effort would encourage Malaysians to save more for their retirement by becoming a self-funding retiree.

7B.66 Furthermore, the PRS framework will allow individuals the flexibility to choose from various providers and funds offered. The PRS is portable whereby contributions made and accrued to the PRS members can be transferred to another provider. The portability feature encourages good performance that will benefit the PRS participant. Over the long term, this should result in better long-term returns and a higher amount of savings available at retirement, provided investments in the fund performs as expected.

7B.67 If the retiree managed to build up sufficient savings (both through contribution and investment performance) in the PRS during the employment/savings phase of the retiree, then the yearly returns of the PRS during the retirement phase will enable the retiree to supplement a portion of the living expenses during retirement. Coupled with a drawdown in accumulated wealth (the EPF savings) and other incomes (e.g. allowance from children, interest from savings), the retiree will be able to live a comfortable lifestyle.

Additional source of long-term capital for economic growth

7B.68 While maintaining the primary aim of increasing retirement savings for individuals so as to fund their retirement needs during old age, the PRS has ancillary benefits of unlocking savings as Malaysians have a high savings rate by international standards. This unlocked savings could be channelled to create new and sustainable fund flow to spur economic growth and growth in the capital markets in particular. This helps the member directly as robust growth in the capital markets may attract talented fund managers who will manage the PRS effectively to help the member achieve his/her long-term return goals. The strong growth in the financial sector will also not be isolated and will spill over to other sectors thereby increasing wage levels and quality of life. When the members help the capital markets, they actually help themselves in a virtuous cycle.

Benefits to the Malaysian capital market

7B.69 These sustained fund flows from the PRS will increase vibrancy in the capital markets and yield benefits, including:

(a) increased product innovation and competition;

(b) increased activities and skill set of the intermediaries;

(c) building scale in the fund management industry.

Reduce the burden on Government finances

7B.70 A vibrant PRS and other "third pillar" schemes guided by the World Bank's multi-pillar approach would reduce the need for the Government to provide a social safety net for the population in retirement phase.

"Third pillar" Experiences in Other Countries

7B.71 The PRS is an example of the "third pillar" under the World Bank's framework. This third pillar scheme helps the members to voluntarily save more for their own retirement needs.

7B.72 The implementation of "third pillar" schemes are varied but generally the issues of an ageing population and sustainable retirement, need to be addressed promptly and many governments around the world are doing just that. Some of the examples of implemented schemes are:

KiwiSaver in New Zealand

7B.73 This scheme started out as a voluntary long-term savings scheme and came about in July 2007. It is aimed at improving the low average rate of saving. Employee participants can choose to contribute 2%, 4% or 8% of their gross pay with a lot of flexibility to change contribution rates or Scheme Providers. The self-employed can choose how much they want to contribute. There are some tax benefits to the scheme to encourage participation. [8]

Supplementary Retirement Scheme in Singapore

7B.74 The Supplementary Retirement Scheme (SRS) is part of the Singapore government's multi-prong strategy to address the financial needs of a greying population. Contributions to the SRS are voluntary and are eligible for tax relief. Investment returns are accumulated tax-free and only 50% of the withdrawals from the SRS are taxable at retirement. The annual SRS contribution cap (since 2016 is 15% of the Absolute Income Base for Singaporeans and permanent residents and 35% of the Absolute Income Base for foreigners. The Absolute Income Base is calculated on 17 months of the Central Provident Fund (CPF) monthly salary ceiling. This annual contribution cap is subject to review. [9]

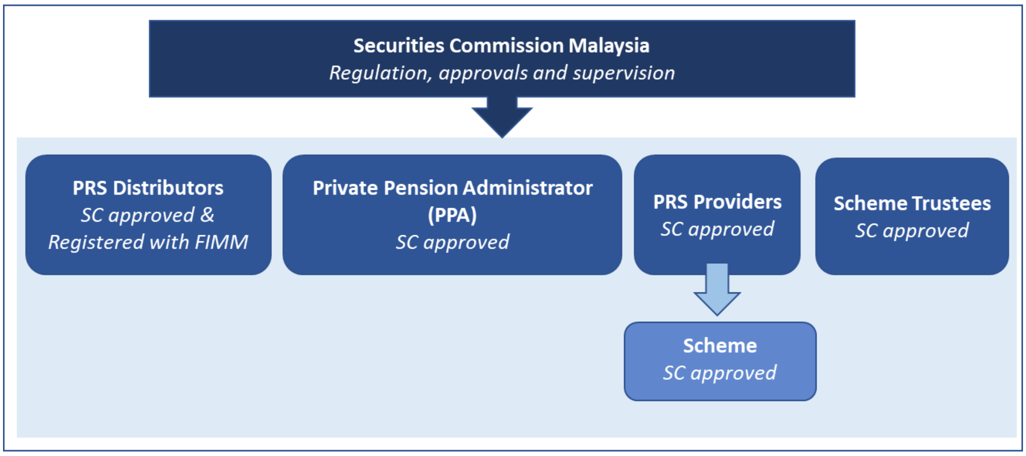
PRS Framework

7B.75 The introduction of the PRS framework resulted from recommendations made by the SC to the Government to accelerate the development of the PRS industry in Malaysia.

7B.76 It was recognised that a robust PRS industry needed to be underpinned by a strong regulatory structure. The objective of regulation is to ensure the proper functioning of the PRS industry that promotes system stability and protects members and beneficiaries, via prudential and investor protection requirements. To achieve this aim, the SC has put in place duties and responsibilities with adequate powers and resources to regulate, supervise and enforce regulations over the PRS industry. **Diagram 7B.2** provides an overview of parties in the PRS ecosystem:

[8] For more details on KiwiSavers, kindly refer to the New Zealand Inland Revenue website.
[9] For more details on SRS, kindly refer to the Singapore Central Provident Fund Board and Inland Revenue Authority of Singapore website.

Diagram 7B.2: Parties in PRS ecosystem



7B.77 The PRS is defined as a capital market product and is a voluntary long-term investment scheme designed to help individuals accumulate savings for retirement. The SC will approve the PRS Providers, Scheme Trustee and PRS as well as license the PRS Distributors where applicable to ensure a minimum standard of conduct and the delivery of reasonable investment advice to the individual members of the Scheme.

7B.78 The role and function of PRS Providers, PRS Distributors and Trustee are described in the earlier chapters of this study guide. The following paragraphs provide the role, function and responsibilities of the Private Pension Administrator and detail explanation on PRS and the operational aspects of PRS.

Private Pension Administrator (PPA)

7B.79 The establishment of the PPA is a critical component in the private pension landscape to enhance the efficiency and convenience to members as well as overall administration of an effective PRS industry. The PPA will be responsible for ensuring the establishment and operationalisation of an efficient administrative system for the overall private pension industry in Malaysia.

7B.80 Overall, it will be responsible for facilitating and maintaining all PRS related transactions made by contributors and members. The PPA will also function as a resource centre for data and research relating to the PRS industry in Malaysia.

<u>Duties and responsibilities of PPA</u>

7B.81 The PPA is an entity approved by the SC to perform the function of record keeping, administration and customer service for the members and contributors in relation to contributions made in respect to the PRS. Some of the specific duties are–

(a) receiving and transmitting instruction in a manner specified by the SC;

(b) keeping records of all transaction or monies paid or received;

(c) providing information to the PRS Provider and member; and

(d) such duties as may be specified by the SC.

7B.82 The PPA must act in the public interest at all times particularly taking into considerations the needs for protection of the members. The PPA must immediately notify the SC if there are adverse circumstances likely to affect the members. The PPA should also not impose fees or vary charges on a PRS Provider or member without the prior approval of the SC. Its terms of reference or operating rules also require prior approval of the SC.

7B.83 Other duties of the PPA include undertaking general promotion and awareness of the PRS and acting as a resource centre for data and research for the PRS industry. The PPA would also monitor fees charged and performance offered by the different PRS Providers.

7B.84 None of the duties and responsibilities of the PPA can be delegated or outsourced without the approval of the SC.

<u>Prior approval for directors and CEO and board composition</u>

7B.85 Directors and the CEO of the PPA must be approved by the SC. The board of directors must comprise of at least one-third of public interest directors.

<u>Need to maintain security and confidentiality of information</u>

7B.86 Duty to take reasonable security measures - The PPA should take all reasonable measures to protect the information and documents relating to the Members against any unauthorised access, alteration, disclosure and dissemination. The PPA must put in place the necessary administrative infrastructure and security measures to perform this duty.

7B.87 Duty to maintain secrecy - The PPA will have access to sensitive and personal information and documents relating to the members of the PRS. The PPA is duty bound not to divulge such information to any person unless under specifically expressed circumstance provided for under Section 139N and 139O of the CMSA.

7B.88 This duty is very important and the person who fails in this duty can be liable to a fine not exceeding three million ringgit or to imprisonment for a term up to five years or both. This is to reassure the public that the privacy of their data is paramount.

<u>Functions of the PPA</u>

7B.89 In performing its functions, the PPA will undertake the following:

(a) Receive registration information from PRS Providers and issue a lifetime PRS account number to members;

(b) Maintain databases of all private pension account numbers issued and transactions relating to each member's account;

(c) Transmit members' instructions to update account details, transfer between PRS Providers and withdraw monies;

(d) Issue consolidated account statements to all members;

(e) Maintain a website providing members with online access to their accounts, detailing the Scheme offered by each PRS Provider and general education/awareness;

(f) Operate a call centre and deal with complaints; and

(g) Generate reports, including statistical and compliance reports, on developments in the PRS industry.

<u>PRS account</u>

7B.90 A lifetime PRS account will be opened for the potential member by the PPA by completing the required opening form, payment of a small fee and providing proof of identification. The account opening procedure may vary for online transactions.

7B.91 After the account is opened, the PPA will send the member a letter or an email containing a unique username and password to access their account online at www.ppa.my.

7B.92 The PRS account will reflect all the contributions made by the member or employer as contributor to all PRS Providers. In addition, each PRS Provider will also maintain an account for each member of its schemes.

7B.93 The PPA will send members consolidated statements of all their holdings whereas each PRS Provider will send statements of accounts to members subscribed to their schemes.

<u>Fees and charges involved</u>

7B.94 All PRS Providers will charge the member fees for investment management, Trustee and administrative costs. The disclosure document will set out the fees they charge. Each member will have to refer to their respective PRS Provider for a complete list of fees/charges involved.

7B.95 The PPA would also charge fees for opening, facilitating transactions and maintaining the PPA account for each member. The PPA website will detail the main fees and charges by each PRS Provider for easy comparison. Any fees to be charged by the PPA to members or contributors may be collected by the PRS Provider acting on behalf of the PPA.

Keeping track of their PRS investments

7B.96 Members can check their PRS investments online with the PPA or contact their respective PRS Providers. Members will receive statements on a periodic basis from PRS Providers and consolidated statements on the investments, including contributions that is made to respective PRS Providers from the PPA.

Private Retirement Schemes

Core funds

7B.97 Every PRS has to offer three types of core funds – the conservative fund, the moderate fund and the growth fund. The Unit Trust Management Companies and Insurance Companies on the other hand can offer any type of funds to the investing public. The choice offered is often based on the demand indicated by the public. There are no choices of funds within an annuity.

Default option

7B.98 Every PRS has core funds that will be default options for members who do not make a fund selection. The core funds aim to categorise members into funds with risks that commensurate with the age of the member (e.g. the investment horizon of the member).

7B.99 However, for unit trust accountholder and buyers of insurance products, there is no default option and the investors or buyers must specify the type of fund or product that they wish to invest or undertake before a transaction can take place.

Sales of units and withdrawal of monies

7B.100 The PRS is meant to encourage members to save for the long term and for their retirement. The contribution into a PRS sub-account A cannot be withdrawn until the member reaches the retirement age, death of a member, permanent departure of a member from Malaysia and due to permanent total disablement, serious disease or mental disability of a member. Only contributions into sub-account B may be withdrawn with conditions (e.g. withdrawals may only be made once a year and subject to a tax penalty).

7B.101 There is no such restriction for unit trust schemes. Investors can generally buy and sell unit trusts freely subject to the specific conditions given for each unit trust scheme. For investment-linked insurance products that may be annuity type product, the cash value in the first year of the policy would be low and it may not be worthwhile for the Investor to cancel the policy.

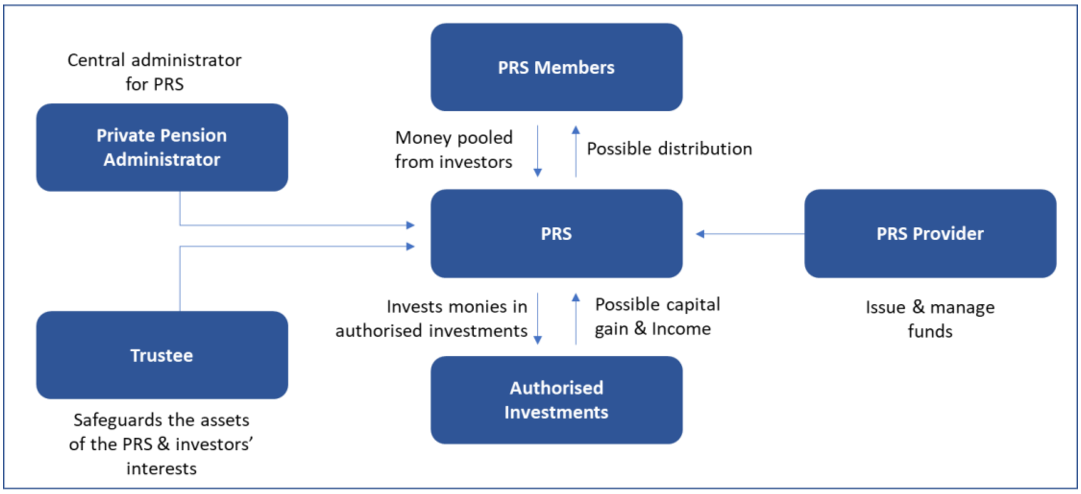
Advantages of the PRS over Other Retirement Products - Portability

7B.102 The member can easily transfer the accrued benefits from one PRS to another managed by a different PRS Provider through the PPA. For unit trust schemes and investment-linked insurance products, the Investors or buyer may be subject to charges again when making the subsequent investments or purchase. Given the nature of the investment-linked insurance product as a protection product rather than an investment, the policy holder may get far less than what they had paid for earlier.

PRS Structure

7B.103 Whilst there are many variations in the types and features of PRS to cater to the needs of the members, the structure of PRS is the same. Diagram 7B.3 below provides an illustration of a common structure of PRS.

Diagram 7B.3: Structure of PRS



Concept of Trust

7B.104 A PRS under the CMSA framework is a Retirement Scheme governed by a Trust. In common legal systems, a trust is a relationship whereby property is held by one party for the benefit of another. The Scheme Trustee holds the assets (fund assets like cash, stocks and bonds) of a PRS on behalf of the member and these assets are held separately from the PRS Provider's assets and segregated by each fund under the PRS and clearly identified as the fund's property.

7B.105 The composition of these fund assets may change during the course of the year (e.g. from the initial subscription cash to equities and back to cash again for distribution) based on the subscription of the Members and PRS Providers investment strategy, but the assets always remain under the control of the Scheme Trustee. In the event the PRS Provider encounters financial difficulties and has solvency issues, the members' PRS assets will still be safeguarded as they are segregated from the PRS Provider's assets.

Advantages of the trust arrangement

7B.106 The Scheme Trustee has a fiduciary duty and a legal responsibility to act impartially in the best interest of the members. Even though the PRS Provider, through the fund manager, has day-to-day operational authority (e.g. they can act on behalf of the fund by buying and selling shares, bonds and other property), the assets and monies reside with the Scheme Trustee.

7B.107 The Scheme Trustee holds assets for the member in trust and segregates them from the assets of the PRS Provider. These assets would be safe if the PRS Provider undergoes illiquidity or insolvency proceedings as the segregation structure ringfences from being claimed by any creditors of the PRS Provider.

Trust Deed

7B.108 Because the PRS is governed by a trust structure, the PRS Regulations impose a requirement for a deed to be registered with the SC to ensure that a trust governing the establishment and operation of the PRS is created and entered into between the PRS Provider and the Scheme Trustee. In this regard, the provisions and covenants of the deed must meet the minimum requirement specified in the PRS Guidelines.

7B.109 The covenants of the deed will include the duties and responsibilities of the various parties involved (including the PRS Provider and Scheme Trustee), as well as the full particulars of the PRS and funds within the Scheme. The deed must be registered and lodged with the SC. Any modification of the deed can only be done through a supplementary deed that is required to be registered with the SC.

<u>Covenants of the PRS Provider and the Scheme Trustee</u>

7B.110 The covenants of the PRS Providers and the Scheme Trustee, the joint covenants of the PRS Providers and Scheme Trustee, as well as other covenants can be found in Schedule D of the PRS Guidelines.

<u>Modification of the deed</u>

7B.111 A deed may be modified by another deed (called the supplementary deed) if the supplementary deed is–

(a) registered with the SC;

(b) accompanied with a special resolution passed by members of the PRS (two-third majority except for the purpose of terminating or winding up a Scheme or fund where at least 3/4 of the value of the units held by members voting at the meeting is required) if the modification materially prejudices the interest of the member (e.g. changes to the investment objectives, change in the risk profile, change in fees and charges); and

(c) accompanied by a statement from the Scheme Trustee and PRS Provider stating that such modification does not materially prejudice the members and prior notice (of at least 7 days written notice) has been given to the members of the PRS.

Eligibility to Contribute to PRS

7B.112 The PRS is open to both Malaysian and foreigners. The members must be individuals who are 18 years of age and above. Employers may also contribute to the Scheme as a benefit to their employees or to encourage job loyalty by having a vesting schedule that pays the contribution based on the vesting period plan for their contributions.

Contribution from Members

7B.113 Since the PRS is a voluntary scheme, there are neither required fixed amounts nor fixed intervals for making contributions (although the individual PRS Providers may set a minimum and maximum contribution for each of the funds they offer). A lifetime PRS account would be opened by the PPA upon the member completing the relevant account opening form and/or fulfilling other requirements. At the time of opening of the PRS account, potential members are not required to make contributions to the Scheme.

7B.114 The PPA does not accept monies/contributions from members. To make contributions, members will have to engage the PRS Provider for the contributions. This can be done simultaneously when opening the PRS account or at a later stage.

7B.115 Where a member registers to open a PRS account and contributions at the same time, PRS Providers are not required to wait until the PRS account is opened before subscribing units for funds under the Scheme as selected by the Member.

7B.116 Contributions can stop and also begin again after a lapse of time. The member may also contribute to more than one Scheme. PRS Providers set the minimum and maximum contribution amount that can be made by Members.

PRS Default Option

7B.117 The default option is available to members who choose their PRS Provider but do not make a fund option. An example of this is when an employer makes a contribution to a member's account but the employee does not specify a fund to be invested in, hence, the amount would automatically be allocated using the default option which is based on the age of the member.

7B.118 PRS Providers are to perform due diligence of the member's identity and collect the required forms and documents on behalf of the PPA, and have effective procedures for verifying the member which includes–

(a) establishing the member's full and true identity;
(b) verifying the identification documents, where required; and
(c) establishing the clients' financial position, investment experience, and

investment objectives.

7B.119 There are three core funds in the default options which must be offered under any PRS. The table below provides further details including the asset allocation of the core funds under the default option:

Table 7B.5: Asset allocation of core funds under the default option

Age group	**Below 45**	**45 to 54**	**55 and above**
Core funds Investment approach	Growth Fund	Moderate Fund	Conservative Fund
Parameters for asset allocation	Focus on growing the portfolio	Focus on growing the portfolio while seeking income	Focus on generating income consistently for utilisation or decumulation

7B.120 The age brackets are selected based on the life cycle approach to investing. Those below the age of 45 still have sufficient time to accumulate savings for retirement and can afford to be heavily invested in growth asset. Investor in this age group can tolerate high degree of volatility in investments.

7B.121 The investors in the 45 to 54 age bracket will have to considering that retirement is nearing and will have to be risk adverse to conserve the funds. This group of Investors should take a balanced investment approach between risk and returns. It is suggested that this age can tolerate moderate volatility in investments.

7B.122 When the investor reaches 55, retirement is imminent and the Investor cannot afford to sit out volatile market cycles given that he/she is moving from accumulation to decumulation phase. The portfolio needs to consist of mainly income generating assets as the Investors can accept minimum volatility.

7B.123 It is important to note that a member can actively select to contribute to the above three core funds which are the default options if they choose to do so.

7B.124 The PRS Provider will have to notify the member one month in advance in writing that the member’s investment in the core funds will be switched according to the rules of the default option, e.g. when the member attains the age of 45 years old or 55 years old (Switch-in Date) unless the member instructs otherwise. Prior to this exercise, the member should also receive general investment advice and market outlook. This would facilitate informed decision making by the Member as to whether he or she wishes to remain under the default option which would automatically change according to their age or choose a preferred fund.

7B.125 For switches that are exercised at the Switch-in Date, the switching must be executed in equal proportion over a five-year period based on the number of units remaining in the relevant fund. The first switching must be executed on the Switch-in Date and the subsequent four (4) switching must be executed no later than 10 business days from each anniversary of the Switch-in Date.

7B.126 Where an individual becomes a member and has made his/her first contribution to the Scheme a month before he attains the age of 45 or 55 years old as the case may be, the PRS Provider must allocate such contribution to a moderate fund or conservative fund.

Tax incentives for PRS

7B.127 There is a tax relief of RM3,000 per annum for individuals if they choose to contribute into a PRS. This relief has been made available since 2012 and can be used for contributions to more than one PRS.

7B.128 Employers contributing for employees may enjoy an additional tax deduction on top of the mandatory EPF contribution but is capped to 19% of the employee's remuneration. All PRS are also tax exempt from interest income received. This effectively may increase the returns of the schemes compared to non-exempt funds which adds to PRS having another advantage.

PRS Account Structure

7B.129 All contributions made to the PRS will be allocated and maintained in two sub-accounts:

(a) 70% of all contributions made to any fund within the Scheme is held in sub-account A and cannot be withdrawn except for permitted circum stances outlined under paragraph 11.37A of the PRS Guidelines.

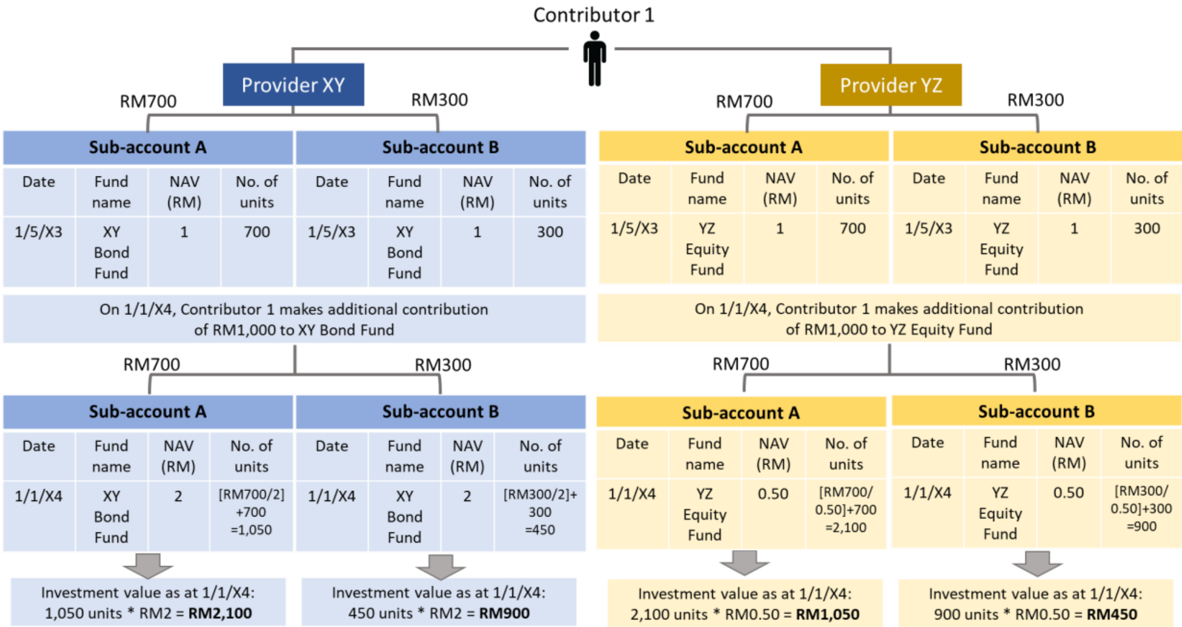
(b) 30% of all contributions made to any fund within the Scheme is held in sub-account B and can be withdrawn once a year upon payment of a tax penalty. This tax penalty does not apply to permitted withdrawals as set out under paragraph 11.39A of the PRS Guidelines.

7B.130 Retirement age is defined under the PRS Guidelines as the age of 55 or any other age as may be specified by the SC.

Example of contribution allocations

7B.131 For illustration of the split into the two accounts, please see example of the contribution allocation in the diagram below.

Diagram 7B.4: Contribution allocations



7B.132 Say Contributor 1 initially contributes RM1,000 into Provider XY on 1 May 20X3. The RM1,000 contribution will be split as usual 70/30 into sub-account A and sub-account B respectively with sub-account A receiving RM700 and sub-account B receiving RM300. These will be used to purchase XY Bond Fund with an NAV of RM1 on that particular day.

7B.133 On 1 January 20X4, Contributor 1 makes another contribution of RM1,000 into Provider XY and continues to choose the XY Bond Fund. As usual, the RM1,000 contribution is split 70/30 into sub-account A and sub-account B respectively. On 1 January 20X4, the NAV of XY Bond Fund rises to RM2.00.

7B.134 Thus, the contribution on 1 January 20X4 will only allow Contributor 1 to buy 350 units of XY Bond Fund (RM700/NAV of RM2) for sub-account A and 150 units of XY Bond Fund for sub-account B. In total, on 1 January 20X4, Contributor 1 will have 1,050 units in sub-account A worth RM2,100 and 450 units in sub-account B worth RM900.

Table 7B.6A: Investments in XY Bond Fund

Date	Total Contribution (in RM)	Allocation (in RM)		NAV per unit (in RM)	No. of units purchased	
		Sub account A	Sub account B		Sub account A	Sub account B
1 May 20X3	1,000	700	300	1.00	700	300
1 Jan 20X4	1,000	700	300	2.00	350	150

Table 7B.6B: Investment value in XY Bond Fund

Date	Units purchased		Cumulative holding (no. of units)		NAV per unit (in RM)	Value (in RM)	
	Sub account A	Sub account B	Sub account A	Sub account B		Sub account A	Sub account B
1 May 20X3	700	300	700	300	1.00	700	300
1 Jan 20X4	350	150	1050	450	2.00	2100	900

7B.135 On 1 May 20X3, Contributor 1 also decides to contribute to Provider YZ by buying the YZ Equity Fund. He contributes RM1,000 which defaults the split of 70/30 into sub-account A and sub-account B respectively. With the NAV of YZ Equity Fund at RM1 on that day, Contributor 1 can buy 700 units for sub-account A and 300 units for sub-account B.

7B.136 On 1 January 20X4, Contributor 1 makes another contribution of RM1,000 into Provider YZ and continues to choose the YZ Equity Fund. As usual, the RM1,000 contribution is split to 70/30 into sub-account A and sub-account B respectively. On 1 January 20X4, the NAV of YZ Equity Fund drops to RM0.50. Thus, the contribution on 1 January 20X4 will allow Contributor 1 to buy 1400 units of YZ Equity Fund (RM700/ NAV of RM0.50) for sub-account A and 600 units of YZ Equity Fund for sub-account B. In total, on 1 January 20X4, Contributor 1 will have 2,100 units in sub-account A worth RM1,050 and 900 units in sub- account B worth RM450.

Table 7B.7A: Investments in YZ Equity Fund

Date	Total Contribution (in RM)	Allocation (in RM)		NAV per unit (in RM)	No. of units purchased	
		Sub account A	Sub account B		Sub account A	Sub account B
1 May 20X3	1,000	700	300	1.00	700	300
1 Jan 20X4	1,000	700	300	0.50	1,400	600

Table 7B.7B: Investment value in YZ Equity Fund

Date	Units purchased		Cumulative holding (no. of units)		NAV per unit (in RM)	Value (in RM)	
	Sub account A	Sub account B	Sub account A	Sub account B		Sub account A	Sub account B
1 May 20X3	700	300	700	300	1.00	700	300
1 Jan 20X4	1,400	600	2,100	900	0.50	1.050	450

7B.137 Note the following:

(a) All new contributions to whichever PRS Provider and funds within the Schemes will be defaulted with the split of 70/30 into sub-account A and sub-account B respectively.

(b) All withdrawals from sub-account B except those occurring at retirement are classified as pre- retirement withdrawals and are subjected to a tax penalty collected by the PRS Provider on the withdrawal amount.

Vesting

Accrued benefits

7B.138 "Accrued benefits" is defined as the amount of a member's beneficial interest in a PRS. In the context of PRS, accrued benefits are the amounts accumulated in both sub-account A and B. Contributions that are subjected to a vesting schedule will be defined as the issuance of vested and conditionally vested units. Members who hold vested and conditionally vested units will enjoy equivalent rights as members of a fund. However, a member holding conditionally vested units is not permitted to request for a transfer of such units to another PRS Provider or to withdraw any such units. PRS providers are only required to maintain sub-accounts A and B for vested units.

7B.139 The accrued benefits of a member are protected from judgement debt and cannot be the subject of a charge, lien, pledge or assignment under Section 139ZA of the CMSA. Section 139Y(2) of the CMSA also adds that income or profits derived from the investment of accrued benefits of a member of an approved PRS, after taking into account any loss arising from any such investment, shall also vest in the Member as accrued benefits as soon as they are received by either the PRS Provider or the Scheme Trustee, whichever is earlier.

Vesting Schedules

7B.140 Employers may make the contributions to the PRS subject to a vesting schedule to promote employee loyalty. PRS Providers are to ensure that such benefits are neither transferred to another PRS Provider nor withdrawn by the employee until they are vested unconditionally.

7B.141 The vesting schedule is an optional feature of the PRS and is subjected to the schedule that determines the entitlement of an employee's accrued benefits based on terms of service.

7B.142 For the purposes of employers who make contributions into PRS on behalf of their Employees, the manner in which the accrued benefits will be accounted for and vested in a member may be in accordance with the vesting schedule issued by the respective employer.

Example:

7B.143 Employer XYZ has a graded vesting schedule where they vest the Employer's contributions on the following anniversaries of the Employee's employment:

Table 7B.8: Graded vesting schedule

Number of years in service	% vested
After 1 year	0%
After 2 years	25%
After 3 years	50%
After 4 years	75%
After 5 or more years	100%

7B.144 So if an employee leaves after three years of service, only 50% of the amount set aside by the employer will be vested in the PRS. The Employee has lost a portion of their savings due to the forfeiture of the contribution by the Employer. Hence, the idea of the loyalty scheme is to encourage employees to stay with the current employers at least until the vesting schedule is complete to enjoy 100% of the accrued benefits.

Duties of a PRS Provider with Respect to Vesting

7B.145 It would be the obligation of the PRS Provider to ensure that the key circumstances or conditions for members that have contributions based on a vesting schedule are covered by the respective vesting schedule. The terms and conditions of the vesting schedule must include but is not limited to the following:

(a) terms and conditions of the employer's contribution and of the vesting of units issued;

(b) the rights attached to vested and conditionally vested units, including any limitation on the rights attached to conditionally vested units;

(c) whether conditionally vested units will be unconditionally vested under circumstances including but not limited to the following:-

(i) cessation of the employee's employment (under various circumstances)

(ii) where the employer is in the course of being wound up or otherwise dissolved;

(iii) where a receiver and manager or an equivalent person has been appointed in respect of any property of the employer;

(iv) where the employer has, whether within or outside Malaysia entered into a compromise or scheme of arrangement with its Creditors, being a compromise or a Scheme of arrangement that is still in operation;

(v) merger of the employer with, or acquisition of the employer by, another entity;

(vi) termination of the vesting schedule;

(vii) death of the employee; and

(viii) any other circumstances as may be specified by the SC.

7B.146 Upon being notified of any of the circumstances stipulated in a vesting schedule as stated in the previous paragraph, PRS Provider is required to-

(a) repurchase the conditionally vested units and pay the proceeds to the respective employer not later than 10 days after being notified; or

(b) vest the conditionally vested units in that member or in that member's estate as soon as practicable.

Pre-Retirement Withdrawal

7B.147 Members are allowed to withdraw from sub-account B (30% of their contributions) for their pre-retirement needs for any reason. This pre-retirement withdrawal is subject to a tax penalty except for those described in a later paragraph of this section. Members may withdraw lump sum or any amount from one or multiple funds of each PRS Provider once a year. The first withdrawal can only be made one year after the initial contribution (whether via member contribution or employer contribution).

7B.148 Members will have to approach the PRS Provider and fill in a form made available by their respective PRS Providers. When the application is submitted to the PRS Provider, the PRS Provider will do the necessary verification and ensure that the member is withdrawing according to permitted rules, such as for the first withdrawal of that year.

7B.149 PRS Providers would not be required to obtain prior authorisation of the PPA before processing the withdrawal. The PRS Provider must verify the pre-retirement withdrawal form and instruct the Scheme Trustee to facilitate the pre-retirement withdrawal by cancelling the units. However, for withdrawals following the death of a member, a PRS Provider must obtain prior authorisation from the PPA before issuing instructions to the Scheme Trustee to cancel units.

7B.150 The PRS Provider is tasked to collect the tax penalty on behalf of the IRB and must deduct the penalty sum before crediting the member's account. The tax penalty for pre-retirement withdrawal is a flat 8%. The amount is to be deducted by the PRS Provider from the amount withdrawn from sub-account B as pre-retirement withdrawal by the member.

7B.151 However, this 8% tax penalty will not apply to pre-retirement withdrawals that are due to:

(a) death
(b) permanent departure of a member from Malaysia
(c) permanent total disablement, serious disease or mental disability of a member
(d) for member's own self or member's immediate family healthcare purpose in relation to illnesses listed in Schedule J of the Guidelines for PRS; and
(e) for housing purpose.

Example:

7B.152 Jon started contributing to PRS Alpha on 1 January 20X3 and on 31 December 20X4 (after 2 years), he has accumulated RM7,000 in his sub-account A and RM3,000 in his sub-account B. He has not made any withdrawal since he started his contribution.

7B.153 On 1 January 20X5, Jon can apply for pre-retirement withdrawal to withdraw either the full amount (RM3,000) or any partial amount from his sub-account B. The tax will be a flat 8% on whatever the withdrawal amount.

7B.154 Based on another scenario, on 1 January 20X5, if Jon decides to immigrate to Australia and leaves Malaysia permanently, he can apply to withdraw from the PRS. In this case, he must withdraw the total full amount of RM10,000 from sub-account A and sub-account B together as partial withdrawal is NOT allowed. Jon will NOT be subjected to the 8% tax penalty for this withdrawal.

7B.155 The member can only obtain information on consolidated holdings or total amount in sub-account B from PPA whereas specific information on pre-retirement withdrawal amounts of a particular PRS Provider can only be obtained from the relevant PRS Provider.

Post-Retirement Withdrawal

7B.156 Upon reaching retirement age, a member can withdraw from the PRS account (both sub-account A and B) without incurring any tax penalty. The withdrawal can be in the form of a lump sum or on a periodic basis at the request of the member. Alternately, the member can choose to retain their savings in the PRS for continuous investment under their current schemes.

7B.157 Request for withdrawal upon retirement may be made directly to the PRS Providers by completing relevant forms. Prior authorisation from PPA is not required. However, PRS Providers are required to notify PPA that a withdrawal has been made.

Permanent Departure from Malaysia

7B.158 Members, who are Malaysians, can also withdraw from the PRS if they leave Malaysia permanently through emigration. For foreigners, it would be upon cancellation of the relevant documentation such as work permit or permanent residency. Further details on the required documentation can be found on PPA's website.

Switching between Funds within the Scheme

7B.159 Switching between funds within the Scheme is allowed. The funds in a PRS are at the sole disposal of the member who may make switches to accommodate asset allocation decisions or due to changes in market outlook. For example, a member may switch from a bond fund to a money market fund when he feels that interest rates have a good chance of moving higher or to move out of an emerging market equity fund if there is political turmoil in that country.

7B.160 The PRS Providers are encouraged to charge low or no switching fee for fund being switched within the same PRS Provider funds. The PRS Provider has the right to prescribe the circumstances and to limit the number of times in a year that the member can switch their choice of funds within a PRS Provider funds.

7B.161 It is important to note that the member can switch between core funds as well as well as non-core funds. The funds in the PRS are at the member's disposal and if he/she feels that a fund is suitable at the present time, he/she is given the flexibility to switch to that fund. If an employer makes a contribution on behalf of an employee whether subject to a vesting schedule or otherwise, the choice of funds under the Scheme (including the right to switch to another fund under the Scheme) is to be made by the employee.

Transfer between PRS Providers (portability)

7B.162 One of the distinct advantages of the PRS is the ability for members to transfer between different PRS Providers prior to a member reaching the retirement age. This portability feature allows the member to choose the PRS Provider which is ideal to the member's unique circumstances and demands.

7B.163 Transfers of accrued benefits can be done by completing PPA's transfer form (TF), a copy of which can be obtained from PRS Providers. Members will need to approach the Transferee PRS Provider to fill up the form. On the TF, the member will need to indicate the total number of units to be transferred from the relevant fund(s) of the Transferor PRS Provider and indicate the name of the fund(s) to be transferred into and the number of units to be transferred.

7B.164 A member may make a full or partial transfer from one or multiple funds managed by the Transferor PRS Provider.

7B.165 Members would not be required to indicate the breakdown on the number of units to be transferred from sub-account A and sub-account B respectively. The Transferor PRS Providers will fill-up the required details by completing the relevant parts of the TF. The allocation of units between sub-account A and sub-account B would be based on a 70-30 ratio whereby 70% of the units would be redeemed and transferred from sub-account A of the transferor fund(s) to sub-account A of the transferee fund(s) and 30% of the units would be redeemed from sub-account B of the transferor fund(s) and transferred to sub-account B of the transferee fund(s).

7B.166 However, over the years due to pre-retirement withdrawals from sub-account B, there may be insufficient balance in sub-account B to effect the transfer according to the 70-30 ratio, in which case the Transferor PRS Provider would be permitted to redeem the remaining units from sub-account A of the transferor fund(s) to purchase units in sub- account A of the transferee fund(s) in order to fulfil the transfer request.

Example:

Leo contributed to PRS managed by PRS Provider A and PRS Provider B that managed Alpha Bond Fund and Beta Equity Fund respectively. For his initial contribution, he acquired 1,000 units in Alpha Bond and Beta Equity at RM1.00 per unit respectively. Subsequent to these contributions, Leo undertook the following transactions:

(a) withdrew 250 units of Alpha Bond at RM2.00 per unit; and

(b) transferred 450 units of Alpha Bond into Beta Equity at RM2.00 per unit.

Table 7B.9 reflects the movements in Leo's sub-account A and sub-account B based on the transactions that Leo had undertaken.

Table 7B.9: Transfer from sub-account B with a balance of less than 30%

Transaction	Fund Name	Units	Price (RM)	Amount (RM)		Total investment (RM)	Explanatory note
				Sub-account A	Sub-account B		
Initial investment	Alpha Bond	**1,000**	1.00	700	300	**1,000**	Sub-account A and B maintain 70% and 30% of total investment amount respectively
	Beta Equity	**1,000**	1.00	700	300	**1,000**	
Before withdrawal	Alpha Bond	**1,000**	2.00	1,400	600	**2,000**	
	Beta Equity	**1,000**	1.50	1,050	450	**1,500**	
Withdrawal	Alpha Bond	**(250)**	2.00	-	(500)	**(500)**	-

Transaction	Fund Name	Units	Price (RM)	Amount (RM)		Total investment (RM)	Explanatory note
				Sub-account A	Sub-account B		
After withdrawal	Alpha Bond	**750**	2.00	1,400	100	**1,500**	After the withdrawal, sub-account A and B have the balance of 93% and 7% of total investment amount respectively
	Beta Equity	**1,000**	1.50	1,050	450	**1,500**	-
Before transfer	Alpha Bond	**750**	2.00	1,400	100	**1,500**	
	Beta Equity	**1,000**	2.00	1,400	600	**2,000**	Beta Equity unit price increased by RM0.50 per unit
Transfer	Alpha Bond	**(450)**	2.00	(800)	(100)	**(900)**	Amount transferred out of sub-account B is less than 30% of total transfer (refer to calculation in ***Note 2*** below)
After Transfer	Alpha Bond	**300**	2.00	600	0	**600**	
	Beta Equity	**1,450**	2.00	2,030	870	**2,900**	A portion of amount transferred from sub-account A of Alpha Bond was transferred into sub-account B of Beta Equity to maintain the 70:30 ratio (refer to calculation in ***Note 3*** below)

Note 1:

$$\frac{Amount\ in\ sub-account\ A\ of\ Alpha\ Bond}{Total\ investment\ amount\ in\ Alpha\ Bond} = \frac{RM1{,}400}{RM1{,}500} \approx 93\%$$

$$\frac{Amount\ in\ sub-account\ B\ of\ Alpha\ Bond}{Total\ investment\ amount\ of\ Alpha\ Bond} = \frac{RM100}{RM1{,}500} \approx 7\%$$

Note 2:

$$\frac{Amount\ transferred\ from\ sub-account\ A\ of\ Alpha\ Bond}{Total\ amount\ transferred\ from\ investment\ in\ Alpha\ Bond} = \frac{RM800}{RM900} \approx 89\%$$

$$\frac{Amount\ transferred\ from\ sub-account\ B\ of\ Alpha\ Bond}{Total\ amount\ transferred\ from\ investment\ in\ Alpha\ Bond} = \frac{RM100}{RM900} \approx 11\%$$

Note 3:

Number of units acquired in Beta Equity with the amount transferred from Alpha Bond

$$= \frac{Amount\ transferred\ from\ Alpha\ Bond}{Beta\ Equity\ price\ per\ unit} = \frac{RM900}{RM2} = 450\ units = A$$

$$Total\ investment\ amount\ in\ Beta\ Equity\ after\ the\ transfer$$

= (number of units in Beta Equity before the transfer + A) × Beta Equity price per unit

$$= (1{,}000\ units + 450\ units) \times RM2\ per\ unit = RM2{,}900 = B$$

$$Amount\ in\ sub-account\ A\ of\ Beta\ Equity\ after\ the\ transfer$$
$$= 70\% \times B = 70\% \times RM2{,}900 = RM2{,}030$$

$$Amount\ in\ sub-account\ B\ of\ Beta\ Equity\ after\ the\ transfer$$
$$= 30\% \times B = 30\% \times RM2{,}900 = RM870$$

Therefore, the amount transferred from sub-account A of Alpha Bond to make up for the shortfall in sub-account B of Alpha Bond

= Amount required to be transferred from sub-account B of Alpha Bond – Existing amount in sub-account B of Alpha Bond

= (30% × Amount transferred from Alpha Bond) – Amount in sub-account B of Alpha Bond

$$= (30\% \times RM900) - RM100 = RM270 - RM100 = RM170$$

7B.167 In the event where the TF is properly completed and has not been rejected, the Transferor PRS Provider has 5 business days to perform the necessary verification, redeem the relevant units and pay the Transferee PRS Provider.

7B.168 Once payment has been made, the Transferor PRS Provider would alert the PPA and upload the TF on PPA's portal with the additional details included, such as the deduction of transfer and redemption fees (if any) and include the price of the units redeemed for sub-account A and B of each fund. In the event of a rejection, the Transferor PRS Provider would state the reasons for the rejection on PPA's portal and the TF would be returned to the Transferee PRS Provider and member for their further action.

7B.169 The conditions for transfer between PRS Providers are as below:

(a) The proceeds from cancellation of units in sub-account A (whether from one or multiple funds) must be used to create units in sub-account A of one or multiple funds managed by the Transferee Provider. Similarly, the proceeds from cancellation of sub-account B whether from one or multiple funds must be used to create units in sub-account B of one or multiple funds by the Transferee Provider;

(b) First transfer is being made after one full year from first contribution to any fund under any Scheme managed by the Transferor PRS Provider;

(c) There had been no prior transfer with the Transferor PRS Provider in that calendar year;

(d) There are sufficient units in the fund(s) selected by the member for transfer;

(e) Each transfer request is only between two PRS Providers which must involve a transfer of one or more funds from the Transferor PRS Provider to one or more funds of the Transferee PRS Provider; and

(f) The amount from a particular fund selected for transfer must be transferred to one (1) fund.

Example 1:
On 1 Jan 20X3, Ishak invests RM1,000 in PRS Alpha and buys 1,000 units of Alpha Bond Fund with an NAV of RM1.00. On that same date, he also invests RM1,000 into PRS Beta and buys 1,000 units of Beta Equity Fund with an NAV of RM1.00.

On 1 March 20X4, Ishak decides to transfer his holdings from PRS Beta to PRS Alpha. The NAV of the respective funds are RM2.00 for the Alpha Bond Fund and RM0.80 for the Beta Equity Fund. PRS Beta will sell Ishak’s 1,000-unit holdings in Beta Equity Fund for RM800 (1,000 x RM0.80) and PRS Alpha will buy units of Alpha Bond Fund.

For illustration purposes, we assume below the transfer fee to another PRS Provider is RM25 to be charged to PRS Beta. Ishak’s holdings from the initial investments until completion of the transfer process are as follows:

Table 7B.10A: Ishak's holdings

Date	Fund Name	Units	Price (RM)	Gross amount (RM) Sub-account A	Gross amount (RM) Sub-account B	Transfer fees (RM)	Net Amount (RM) Sub-account A	Net Amount (RM) Sub-account B	TOTAL (RM)
Initial investment									
1 Jan 20X3	Alpha Bond	1,000	1.00	700	300	*Not applicable*			1,000
	Beta Equity	1,000	1.00	700	300	*Not applicable*			1,000
Before transfer									
1 March 20X4	Alpha Bond	1,000	2.00	1,400	600	*Not applicable*			2,000
	Beta Equity	1,000	0.80	560	240	*Not applicable*			800
Transfer-out process									
1 March 20X4	Beta Equity	1,000	0.80	560	240	25	535	240	775
After transfer									
6 March 20X4	Alpha Bond	1,387.5	2.00	1,942.5	832.5	*Not applicable*			2,775
	Beta Equity	0	0.80	0	0	*Not applicable*			0

Note the following:

(a) PRS Providers may only charge actual and reasonable expenses incurred in connection with transfers to another PRS Provider or switching between funds within the Scheme as disclosed in the disclosure document.

(b) Provider's Fees e.g. Redemption Charge and Transfer Fee, where relevant, will be deducted from sub- account A.

(c) If transfer request is from more than one fund from the same Provider, Transfer Fee will be apportioned depending on number of funds. For example, if Transfer Fee is RM25 and involves two funds from the same provider, Transfer Fee for each fund will be RM12.50.

(d) As with any creation and redemption of units, both PRS Providers must secure the price per unit as at the next valuation point after the request has been received.

(e) Members must be made aware that as there is a time-lag during the transfer process as the process involves redemption of units and creation of units by different Providers, the fund prices may change due to market movement or fluctuations.

Example 2:
Ahmad has two funds with PRS Alpha and wants to transfer out to Provider Beta (Growth and Average funds). The transfer should be as follows:

Table 7B.10B: Transfers between PRS funds

TRANSFER-OUT TRANSACTION			TRANSFER-IN
Fund Name	**Units**	**Number of units**	
Alpha Conservative	$\boxed{\text{Full}}$ / Partial	Note: For full transfers, member does not have to fill up this column	Beta Growth
Alpha Shariah	Full / $\boxed{\text{Partial}}$	100	Beta Average

Example 3:
Ahmad started working for ABC Company on 1 January 20X4 and ABC Company started contributing RM100 per month to PRS Bravo on behalf of Ahmad, from that same day. On 1 July 20X4, Ahmad also started contributing on his own to PRS Bravo.

On 1 January 20X5, Ahmad is allowed to transfer the accrued benefit in PRS Bravo to another PRS (say PRS Echo) of his choice because:

(a) 1 year has elapsed since the first contribution to PRS Bravo; and

(b) Contribution to any fund under any Scheme may be made from employers or individuals themselves.

If we assume that Ahmad also contributes to PRS Delta from 1 October 20X3, he is allowed to transfer that accrued benefits from PRS Delta during the calendar year of 20X5 as well because: PRS Delta is managed by a different PRS Provider, and it is a first time transfer from PRS Delta requested in that calendar year.

Unclaimed Monies and Death of Members

7B.170 The PRS Provider will need to maintain the account of the member even if it becomes dormant (no monies received or movement between funds after a certain period). Where the account is dormant for 12 months subsequent to the member's 100th birthday, the Scheme Trustee may pay any unclaimed accrued benefit held by the Scheme Trustee to the registrar of unclaimed monies, in accordance with the provisions of the Unclaimed Monies Act 1965. Prior to paying the unclaimed accrued benefits to the registrar of unclaimed monies, the PRS Provider must obtain approval of the PPA.

7B.171 Upon death of a member, the member's personal representative such as the executor or administrator may make an application for withdrawal from the relevant PRS Provider. Supporting documents such as the probate, letter of administration or Sijil Faraid must be sent to the PRS Provider as soon as practicable, which would then be submitted to PPA for their authorisation. Once the prior authorisation of the PPA is received, the relevant PRS Provider must within 7 business days pay the personal representative of the deceased PRS Member the proceeds of the repurchase of units.

PRS Nomination

7B.172 PRS can nominate a person or persons to receive the PRS accrued benefits upon death of the PRS with effect from 1 August 2017.

Nominee and witness for nomination

7B.173 A who is a Malaysian citizen or a foreigner having a permanent residence status in Malaysia may nominate any individual to receive his or her accrued benefits upon his or her death. A nomination shall be effective only when the duly completed and witnessed nomination form has been received by PPA or PRS Provider, whichever is earlier.

7B.174 A nominee must be an individual (not welfare bodies/organisations/societies) but can be a minor. A PRS may nominate up to a maximum of 6 nominees. A nomination form must be witnessed by a person of sound mind who has attained the age of 18 years and who is not:-

(a) A nominee;
(b) A spouse of a nominee;
(c) An employee of PPA or PRS Provider; or
(d) A Consultant of PRS Provider.

PRS nomination scenario

7B.175 The following paragraphs provide an illustration of a PRS nomination and the nominees' receipt of a PRS member's accrued benefit upon his/her death.

(a) Adam has PRS holdings with PRS Provider ABC and PRS Provider XYZ as shown below:

Provider ABC – Fund 1	500 units	RM500
Provider XYZ – Fund 2	500 units	RM500

(b) Adam can nominate his wife to receive/administer 60% of this PRS holdings in his PRS account and nominate his brother to receive/administer the remaining 40%. Adam can complete the PRS nomination form as follows:

No.	Nominee Name(s) (As per NRIC /Passport)	NRIC /Passport No.	Mobile No.	Percentage Allocated (%)
1	Wife	XXX	XXX	60%
2	Brother	XXX	XXX	40%
			Total	100%

(c) In the event of Adam's death, his wife and brother will receive the following accrued benefits as follows:

	Wife (60%)		Brother (40%)	
	Units	RM	Units	RM
Provider ABC – Fund 1	300	300	200	200
Provider XYZ – Fund 2	300	300	200	200

Withdrawal upon death of a PRS Member

7B.176 A nominee(s) is required to submit the following documents which must be complete and in order:-

(a) Withdrawal upon death of a Member form;

(b) Certified true copy of member's death certificate; and

(c) Nominee(s) Identification Card (NRIC/Police Identification Card/Military Identification Card/Passport (for foreigner)

Full details on the required documentation can be found on PPA's website

Revocation of PRS nomination

7B.177 A nomination shall be revoked:-

(a) by the death of all nominees during the lifetime of the member;

(b) by completing and submitting the Revocation of Nomination Form;

(c) by any subsequent new nomination made by completing and submitting the Nomination Form; and

(d) where a nominee fails to submit the relevant withdrawal form within one (1) year from the death of a Muslim member.

Type of Funds within the Scheme

7B.178 The purpose of the PRS is to facilitate asset accumulation by members for use in retirement. Thus, a range of funds must be available within the Scheme to cater to the particular demands of the PRS member.

7B.179 The PRS Guidelines allow the PRS Provider to offer a range of seven funds. This limit may increase up to a range of 10 funds if the PRS Provider plans to offer Shariah-compliant funds under the Scheme. Alternatively, a specific Scheme may be established for Shariah-compliant funds only.

7B.180 Default options are for members who select their PRS Providers but do not specify a fund option. Another case may be where the employer channels contributions to a particular PRS Provider but where employees do not make a fund selection, these contributions will be allocated to the default option of that PRS Provider.

7B.181 The objectives of having the default option of core funds in every PRS are to ensure that for members who do not choose specific funds, their contributions are channelled into a fund that is appropriate given their age.

7B.182 At all times, the PRS Provider must ensure that the Scheme which it offers to the public has the default options consisting of core funds. The three core funds are:-

(a) the conservative fund;
(b) the moderate fund; and
(c) the growth fund.

Investment Objective of the Scheme

7B.183 The investment objective of the Scheme and the funds within the PRS must be clearly, specifically and sufficiently stipulated in the deed.

Different funds for different risk tolerance

7B.184 Although the ultimate purpose of the PRS is to facilitate asset accumulation by members for use in retirement, members of the PRS will have different investment objectives and risk tolerance that must be considered. The PRS Consultant needs to assess these objectives vis-a-vis the risk tolerance and advise the members accordingly on what the volatility of returns are like for the funds in the PRS and the possible risk of substantial capital loss if invested in certain funds. The members must realise that potentially high returns come with higher risk.

7B.185 Members must also be made to realise that although there is a default option, which is age-based, this may not be suitable for all members as some Members of that age may prefer a more conservative or aggressive portfolio. The default options are made based on the age of the member and this default allocation follows the investment maxim that if the member's investment horizon is longer (e.g. the member is younger), then the member can afford to take more risks and more volatility of returns.

7B.186 This may not be true for everyone as some young investors may be risk-averse and would prefer a heavier concentration of bonds and some older investors made be just the opposite. The PRS Consultant should ascertain that the member is comfortable with the risk profile of the core funds before recommending them.

7B.187 Where a member does not select a particular fund under the PRS, a fund within the default option (core funds) that corresponds to their age would be selected by default. The details are listed below:

<u>Conservative fund (member age 55 years old and above)</u>

7B.188 Asset allocation for this age group focuses on conserving capital. The investment is mainly in income-generating assets. Risks associated with the investments should not jeopardise the value of investments generate. Members in this age group accepts minimum volatility.

<u>Moderate fund (45 to 54 years old)</u>

7B.189 Asset allocation for this age group aims to continue to grow the portfolio in real terms. Risks are taken only when deemed appropriate without taking high levels of market risk, PRS members in this age group tolerates moderate volatility in investments.

Growth fund (Below 45 years old)

7B.190 Asset allocation for this age group focuses on growing the investment portfolio steadily. Risks associated with the investments are deemed appropriate for the returns generated by them. Members in this age group tolerates high degree of volatility in investments

7B.191 It is important to note that the asset allocation decision imposed on the member through the restriction in terms of risks associated with the investments and the level of tolerance in volatility to make it appropriate for the member's age. For example, assets allocated for the conservative fund limits the volatility and return risks of the fund and this is appropriate given the member is already preparing for retirement and should not be exposed to much risks.

General risk and return profiles of certain types of Fund

Cash management fund

7B.192 Invested primarily in money market instruments and deposits, the volatility of returns for this type of fund is relatively low. The returns of this fund should reflect that of a fixed deposit account and is the least risky compared to other types of funds.

Index funds

7B.193 The aim of this type of funds is to track an index and replicate the return for its PRS members. The volatility of returns and risk associated with the index funds will be dependent on the type of index it tracks. Some of the possible index funds and their risk levels:

Country index – Equities emerging markets

7B.194 Emerging country indices like China's Shanghai Composite or India's Nifty Index are very volatile. This is a very risky fund due to the 100% equities components. Furthermore, this type of fund is made up of emerging market equities which is riskier than developed markets equities.

Country index – Equities developed markets

7B.195 Developed country indices like the UK and Japan are made up of more established companies and the returns of the index would be more stable compared to emerging markets. This type of fund is less risky than a fund made up of emerging markets equities but inherently riskier than funds that have less equities components.

Regional index – Equities

7B.196 Regional indices provide the Investors with more diversification (companies from different countries) and some specific investment objectives (e.g. Asia REITs).

The returns would be relatively stable. This type of funds is less risky than the country index funds as it offers more diversification, but it is still riskier than bond funds because of the 100% equities component.

Global index – Bonds

7B.197 A global index will comprise multiple country components and individual issues. This diversification will result in a stable return profile for this type of index. Furthermore, the underlying asset is less risky compared to equities. This type of fund is less risky than the equities index or country funds but riskier compared to the cash management fund.

Volatility

7B.198 Volatility is a measure of the variation of the price of a financial instrument over time. The funds mentioned above contain equities, bonds and other assets which have daily variation in prices and hence, the fund itself would have daily variation in NAV. A volatile fund is one where the daily returns fluctuated within a large band of possible prices whereas a less volatile fund means that the daily return would fluctuate within a narrower band of possible prices.

Types of Asset Class

7B.199 A PRS consists of a range of funds which are called core funds and non-core funds. The PRS will also be invested in different types of asset classes which are briefly elaborated below.

Bonds

7B.200 A bond is a debt investment where an investor loans money to an entity (corporate, supra-national or governmental) that borrows the funds for a defined period of time at a fixed interest rate. Bonds are used to finance a variety of projects and corporate activities. Bonds are also commonly referred to as fixed income securities as the coupon payment from these bonds are pre- determined and contractual. The level of a bond's interest rate is determined by the credit quality of the issue and the duration of the bond. The lower the credit quality of the issuer, the higher the expected interest rate. As for the duration of the bond, the longer the maturity of a bond, the higher the expected interest rate of the bond.

Equities

7B.201 The word signifies an ownership position or equity in a corporation. The equity holder only enjoys residual claim on the corporation after all prior claims have been settled (e.g. claims by debt holder etc.). In relation to PRS, equities refer to stocks and shares of companies that the fund under the Scheme invests in. The returns to the fund under the Scheme come in the form of dividends received, and capital appreciation of the stock.

Money market instruments

7B.202 These are financial assets that have high liquidity and very short maturity (less than a year). Money market instruments consist of certificates of deposits (CDs), bankers' acceptance, treasury bills, commercial papers and repurchase agreements (repos). The money market is used by participants as a means of borrowing and lending in the short term.

Collective Investment Schemes

7B.203 A Collective Investment Scheme is a way of investing together with other Investors in order to benefit from the advantages of working as part of a group.

7B.204 These advantages include the ability to hire professional investment managers, costs sharing and diversification. Collective Investment Schemes are defined under the PRS Guidelines and include, among others unit trust funds, real estate investment trusts, exchange-traded funds, wholesale funds and closed-end funds.

Derivatives

7B.205 A derivative is a security whose price is dependent upon or derived from one or more underlying assets. The derivatives contract is between two or more parties whose value is determined by the fluctuations in the underlying asset. The common types of derivatives are futures contracts, forward contracts, options and swaps.

7B.206 A fund can invest in derivatives that are either listed or quoted on a stock exchange, or dealt in the OTC market, provided that the fund's global exposure from derivatives position does not exceed the fund's NAV at all times. Derivatives can be used to hedge a risk. An example of this would be a Malaysian company hedging US$ receivables through a currency option because there is a belief that the US$ will weaken. Derivatives can also be used for speculation. Buying a Malaysian government bond futures contract to profit from an expected drop in interest rates is an example of speculative behaviour.

Real estate

7B.207 Real estate is defined as land and anything permanent that is fixed on it, including buildings, fixtures and any items attached to the structure. Real estate can be grouped into three broad categories based on its use, namely residential, commercial and industrial. Examples of real estate would include houses, apartment blocks, undeveloped land, office buildings, retail complexes, condominium and factories.

7B.208 Unlike other assets, real estate is most affected by local conditions of the immediate area where the property is located. With the exception of a global or national recession, real estate prices would be most influenced by local factors including the availability of jobs, crime rate, presence of good schools, local property taxes, proximity of shops and access from major roads.

Authorisation of the Funds

7B.209 The funds under the PRS can consist of core funds and non-core funds which must be authorised by the SC. An application for approval of a Scheme must include the application for authorisation of at least the core funds under the Scheme, whereas for non-core funds, application may be made at any time after the approval of the Scheme containing the core funds.

7B.210 The authorisation of a fund may be revoked if:-

(a) any information or document furnished in the application is false or misleading or contains a material omission;
(b) the core funds are not launched within six months of the authorisation (unless an extension of time has been sought from, and approved by the SC);
(c) the PRS Provider failed to comply with the directions of the SC or the requirements of the PRS Guidelines; or
(d) it is to protect the interest of the public or the members as a whole.

Naming of the Funds

Core funds (default funds)

7B.211 The core funds in a PRS are default funds which must be named:-

(a) (Insert Name of the PRS Provider) – Growth Fund;
(b) (Insert Name of the PRS Provider) – Moderate Fund; and
(c) (Insert Name of the PRS Provider) – Conservative Fund

Non-core funds under the PRS

7B.212 For non-core funds, the PRS Provider and the Scheme Trustee must ensure that the name given to a fund or class of units must be appropriate, not misleading or conflicts with the name of another fund. The SC has the right to ask the PRS Provider to change the name of the fund or class of units if it deems the name inappropriate.

Fees, Charges and Expenses

7B.213 This section deals with the fees and charges that affect the PRS member. It is important for the member to understand that higher fees and charges will inevitably detract from long-term fund performance as less of the invested monies actually become available for investment and high expenses reduce the annual performance of the fund as a direct consequence.

7B.214 The example below illustrates the point. Assume that all the four funds return 10% gross (before fees and expenses) each year for the next 10 years.

Table 7B.11: Impact of funds' fees, charges and expenses on fund' returns

	Fund A	Fund B	Fund C	Fund D
Initial sales charge	0%	0%	0%	7%
Annual management fee and expenses	0%	1%	2%	0%
Available for investment at year 0	100%	100%	100%	93%
Gross return each year	10%	10%	10%	10%
Net returns each year	10%	9%	8%	10%
Total returns after 10 years	259.4%	236.7%	215.9%	241.2%

7B.215 Fund A outperforms Fund B and Fund C merely because the higher fees of Fund B and Fund C results in lesser assets accumulated each year for the member and a smaller compounding factor.

7B.216 Fund A outperforms Fund D because the initial sales charge of 7% in Fund D means that only 93% of that fund's initial investment is invested for the member. This results in 7% reduction in total return over time.

7B.217 It is imperative that the member understands the various fees, charges and expenses involved in order to make an informed decision on whether to participate in a PRS. It is also important for the member to note that fees charged to the fund can also be in the form of Trustee's fees, fees paid to the PPA and other fees which will impact the fund returns.

Dealing charge/fee for dealing in units

7B.218 This is the charge imposed on members for participating in the PRS. There may be both an entry fee and an exit fee or just an entry fee. The amount of the charge as well as when it is incurred will be clearly spelt out in the disclosure document. These charges are mainly collected by the PRS Provider to remunerate the PRS Consultant and to cover marketing costs.

7B.219 In addition, the dealing charge must be clearly permitted by the deed and expressed as a fixed amount or a fixed percentage of the price of a unit or amount invested.

7B.220 The PRS Provider can change the dealing charge but only after notifying the Trustee and the SC of the change and issuing a supplementary disclosure document provided the change is within the range stipulated in the deed. Thirty days must elapse after the supplementary disclosure document is issued before the new dealing charge can take effect. Any increase in the maximum amount or maximum rate stated in the deed can only be made pursuant to a special resolution passed at a meeting of members of the Scheme or the fund within the Scheme, as the case may be.

7B.221 In the interest of fairness, discounts and rebates in any form are prohibited and the PRS Provider, its sales agents and distributors must clearly inform members and contributors of the actual rate of charges payable.

Remuneration of the PRS Provider and Scheme Trustee

7B.222 Both the PRS Provider and Scheme Trustee can only be remunerated by way of an annual management and annual Trustee fee charged to the fund. The fees must be accrued daily and calculated based on the NAV of the fund (as most PRS Provider and Scheme Trustee's fees are based on a percentage of fund size). These fees must be permitted by the deed and clearly disclosed in the disclosure document and are expected to be reasonable with regard to the roles, duties and responsibility of the respective parties.

7B.223 The management fee percentage may only be raised by way of a supplementary deed with the members of the fund passing a special resolution to approve the increase.

7B.224 The PRS Provider is allowed to collect fees on behalf of the PPA as agents. These fees are not remuneration for the PRS Provider and should not be confused with the annual management fee.

Expenses of the fund

7B.225 Except for fees payable to the PPA, only expenses (or part thereof) directly related and necessary in operating the Scheme and managing a fund may be paid out of the fund. These would include the following:-

(a) Commission or fees paid to brokers or dealers;
(b) Custodial charges or fees paid to sub-custodians (where applicable);
(c) Tax and other governmental and local authority charges;
(d) Audit fee and related expenses by the auditor appointed by the PRS;
(e) Valuation fees and related expenses by independent valuers for the benefit of the fund;
(f) Costs incurred in the modification of the deed (other than those that benefit the PRS Provider or Scheme Trustee); and
(g) Costs incurred in any meeting of members (other than those that benefit the PRS Provider and Scheme Trustees).

7B.226 The onus is on the Scheme Trustee to ensure that all expenses charged to the fund are legitimate and that the quantum of expenses charged is reasonable with reference to standard commercial rates. The Scheme Trustee itself may be reimbursed for expenses incurred in the course of exercising its duties as a Trustee.

Review of Fees and Charges

7B.227 The SC has the power to review the fees and charges. Where it finds that the expenses and fees are inconsistent with the objectives of the Scheme or prejudicial to the interests of the members, it may require such expenses and fees to correspond with the services provided.

Creation and Cancellation of Fund Units

7B.228 Fund units are created and cancelled by the Scheme Trustee upon the advice of the PRS Provider because of new requests by members or potential members of a PRS to buy or to redeem units.

7B.229 Apart from the initial offer of the fund where the initial price is fixed during the offer period (a period not exceeding 21 days), all dealings in the fund must be at the NAV per unit of the fund at the next valuation point (usually the next business day) after the request for the sale or repurchase of units by the PRS Provider. This is known as forward pricing and it is imperative that the member understands the rationale behind this pricing.

7B.230 In circumstances where the prior authorisation of the PPA is required for the repurchase of units, the transaction will be at the NAV per unit of the fund as at the next valuation point after the PPA's authorisation has been received by the PRS Provider.

7B.231 In order to standardise the DCT in receiving applications for purchases and redemptions of units, FIMM has issued IMS 1 - Dealing Cut-Off Time for Unit Purchases and Redemptions, where the DCT in respect of receiving applications for purchases and redemptions using the same day-end's pricing shall not be later than 4.00 pm each business day. Any applications received after the DCT will be processed based on the next day-end's pricing.

Forward Pricing

7B.232 It is best to explain forward pricing with an example. Say the published NAV per unit of Fund A (an equity fund) on 20 March 20X2 was RM1.00. Assume that overnight, there was equity market turbulence and the major overseas markets plunged. Member XYZ wants to switch to another fund, hence redeems his or her one unit in Fund A and submits the request on 21 March.

7B.233 Forward pricing means that Member XYZ would only receive his or her redemption at the price of the NAV per unit on 21 March (the next valuation point) which turned out to be RM0.98. Allowing Member XYZ to redeem at RM1.00 per unit would disadvantage the rest of the members because Member XYZ would gain RM0.02 per unit at the expense of the rest of the members.

7B.234 Conversely, say the overseas markets experienced a huge rally and Member QRS wants to buy the fund and submitted his/her request on 21 March to buy one unit. The NAV on 21 March turned out to be RM1.03. Member QRS could only buy the fund at RM1.03 per unit (the forward price). Allowing Member QRS to buy the fund at historical NAV of RM1.00 per unit (on 20 March 20X2) would be allowing Member QRS to profit at the expense of the other members.

7B.235 Table 7B.12 provides a fund's unit price data for another example:

Table 7B.12: Provider A' PRS fund unit price for 23 and 24 January 20X4

Provider A's PRS Fund Pricing	
Date	NAV
23 January 20X4	RM1.00
24 January 20X4	RM1.20

7B.236 Provider A's valuation point is at 4.00 pm every business day. For Member ABC who submits a request to invest in the PRS fund on 23 January 20X4 at 12pm, the valuation points for his/her investment would be NAV for 23 January 20X4 which would only be published the following day.

7B.237 For Member XYZ who submits a request to invest in the PRS fund on 23 January 20X4 at 5.00 pm, the NAV per unit for his or her investment will be RM1.20.

7B.238 From the above example, it becomes clear that the forward pricing will depend on the timing of the next valuation point.

7B.239 For investment requests submitted after the valuation point or time, it will be based on the NAV of the next business day. It is important to note that the PRS Providers have differing valuation points.

Valuation

7B.240 A fair and accurate valuation of all the assets and liabilities of the fund must be conducted at each valuation point to determine the NAV per unit of the fund. The valuation process must be consistently applied, and the valuation process must be verifiable and objective. Once valuation is determined, the Scheme Trustee would have to be immediately notified. The NAV of a fund needs to be published daily on the website of the PRS Provider and the PPA.

7B.241 The valuation point must be at least once every business day although in some circumstances with limited repurchased arrangement or investments in illiquid assets (like real estate), the daily valuation requirement does not apply. In those cases, the valuation points must be clearly disclosed in the disclosure documents and must be at least once a month.

7B.242 SC guidelines require PRS Providers to take remedial action to rectify any incorrect valuation or pricing. Rectification must be extended to the reimbursement of money if the incorrect valuation or pricing is significant. However, there is no definition on what is deemed significant, and the interpretation is left to the PRS Providers' discretion which has led to inconsistent practices. Occasionally certain approaches may unintentionally lead to the potential risk of PRS members being at a disadvantaged.

Holding of Units by PRS Provider

7B.243 PRS Provider may hold units in PRS only to facilitate sales and repurchase of units, and to reduce the number of creations and cancellations of units with the Trustee. The value of its stock of units can rise and fall in line with the NAV of that PRS. PRS Provider may, just like all holders, make a gain or loss through holding units in PRS and this can be a source of profits (or losses) for PRS Provider. The SC has set maximum holdings of units for PRS Provider in PRS in order to limit the PRS Provider's financial exposure in this aspect.

7B.244 Where a PRS Provider or its related corporation holds units in a fund under the Scheme that it manages, it must ensure that there are adequate policies, procedures and controls established to manage any potential conflict of interests.

Distribution, Splits and NAV

Impact of splitting on NAV

7B.245 Splitting the units reduces the NAV per unit but it has no overall effect on the total value of the holdings of a member as the reduction in NAV is compensated by a higher number of units. A statement to members should also clearly explain-

a) What is a unit split;
b) The purpose of undertaking the unit split exercise; and
c) the impact of unit split to the fund and Member's investment in terms of NAV per unit, number of units and total value of the fund and members' investment.

Given the nature of a unit split, explanation should include statements as follows:

- the value of investment in the fund will remain the same, whether the investment is made before or after the unit split; and
- the unit split will not affect the fund's future gains.

<u>Example:</u>
As of 2 April 20X2, Member ABC held one unit of Fund XYZ with an NAV of per unit of RM2.10. A 2-for-1 split was declared on that same date. After the split of the units, Member ABC held two units of Fund XYZ but with an NAV per unit of RM1.05.

Distributions impact on NAV

7B.246 Distributions (in terms of dividends) will reduce the NAV per unit because part of the NAV is returned to the member in the form of a cash payment. In the case of the PRS where units must be given in lieu of cash payment, the NAV of the fund will still be reduced because there will be more units created from the same pool of funds. Income distribution in the form of units is akin to unit splitting as above.

Example:
As of 1 March 20X2, Member QQQ owned 800 units of MNO Fund with an NAV per unit of RM2.00. A dividend of RM0.40 per unit was declared and paid on the same date in the form of fund units. Immediately after the payment of the dividend, Member QQQ would hold 1000 units of MNO Fund with a lower NAV per unit of RM1.60. Even though the NAV per unit had been reduced with the distribution, Member QQQ was not made worse off as he still had the same amount of wealth as before.

7B.247 If the PRS Provider chooses not to distribute income or declare a dividend, the unit price of the fund will increase with the growth of the NAV. At all times, the NAV of a fund should reflect all the available income accrued to it.

Measuring Performance and Returns

7B.248 It is important that the members are able to assess the performance of a fund under the PRS as it allows the member to make informed decisions on whether to stay invested with a current fund or to make a switch into another fund or for that matter another PRS altogether.

7B.249 Fund performances are available in the disclosure documents and fund report of the funds under the Scheme.

Average total return

7B.250 The average total return is a standard measure of performance for PRS and funds. It measures the total return for a measurement period (usually a year) by taking both the income distribution (dividends) and the change in the NAV per unit of the fund (the capital gains). The formula (%) is given as:-

$$Average\ Total\ Return = \frac{(NAV\ end\ period - NAV\ beginning\ period) + Dividends}{NAV\ beginning\ period}$$

7B.251 The following table provides the illustration for the calculation of average total return.

Table 7B.13: Calculation of average total return

	NAV (1 Jan 20X1)	NAV (31 Dec 20X1)	Dividends paid (20X1)
Fund A	RM1.00	RM1.02	RM0.05
Fund B	RM1.00	RM1.04	RM0.02

Fund A: Average total return in 20X1:

$$\frac{(RM1.02 - RM1.00) + RM0.05}{RM1.00} = 7\%$$

Fund B: Average total return in 20X1

$$\frac{(RM1.04 - RM1.00) + RM0.02}{RM1.00} = 6\%$$

Compounded annual return

7B.252 Another method to measure performance is to use the compounded annual return (CAR). The CAR measure is useful for comparing fund performances that differ in the holding period. For example, how do you compare a fund where the investment grew from RM1,000 to RM1,300 in five years against another where the RM1,000 grew to RM1,700 in 10 years? In the first instance, the CAR rate is 5.39% while in the second, it is 5.45%. The CAR standardises the time dimension so that returns over different periods can be compared.

7B.253 There are drawbacks to this method as it assumes that the returns are compounded at the same rate for each period (year). Another drawback is that this focuses on the return element without looking at the risk element (the volatility of returns). The third drawback is that the CAR measure must be put into context when assessing performance.

7B.254 Say Fund A has a CAR of 9.50% over the past 15 years whereas Fund B has a CAR of 10% over the last two years. Is Fund B superior to Fund A? Not necessarily. The longevity of Fund A and their ability to produce returns over 15 years (over many market cycles) is certainly a good attribute to have even if it has a lower CAR over the last two years.

7B.255 Nevertheless, even with these drawbacks, the CAR is a useful tool to have in assessing fund performances.

Electronic communication

7B.256 A PRS Provider may use any form of electronic communication to distribute fund reports, statements and other notices as required under the Guidelines of PRS, provided that the PRS Provider complies with the following:

a) Members are notified of the mode of communication at the point of account opening; or
b) Prior to utilising electronic communication as the default mode for communication, the PRS Provider must send a notice to all members by post, informing that members will be automatically enrolled to receive such documents via electronic communication unless members choose to opt out of such mode of communication.

Operational Aspects of Shariah-Compliant PRS

7B.257 As mentioned in Chapter 2 of this study guide, a Shariah-compliant PRS is quite similar to a conventional PRS, it must be noted that they key difference is the activities relating to the Shariah-compliant PRS must comply with Shariah requirements. Shariah-compliant fund's deed and prospectus must be drafted in accordance with Shariah requirements. Terminologies used in conventional deed and prospectus which are not in line with Shariah such as interest-based instruments and interest income must be avoided.

7B.258 The objective of a Shariah-compliant PRS is to achieve both capital and income growth within the scope of Shariah. Hence, the investment strategy would also need to be aligned with the objective of a Shariah-compliant fund. Further, PRS Providers that operates and manage a Shariah-compliant PRS must ensure that the excess funds, such as liquid assets and cash, are placed/invested in Shariah-compliant instruments.

7B.259 The compliance manager or officer must ensure that all daily operations comply with all the requirements of the SC as well as Shariah. To assist the compliance manager or officer in ensuring that funds are managed and administered in accordance with Shariah requirements, PRS Providers offering Shariah-compliant PRS are required by the PRS Guidelines to appoint a Shariah Committee / Shariah Adviser to supervise and provide necessary advice to ensure that the Shariah- compliant PRS offered to the public is managed and administered in accordance with Shariah requirements.

7B.260 Similar to conventional funds, PRS Providers are also required to publish and distribute fund reports for Shariah-compliant PRS to the PRS members. This report provides the Shariah adviser opinion whether the fund has been operated and managed in accordance with the applicable guidelines, ruling or decision issued by the SC pertaining to Shariah matters and a statement to the effect that the investment portfolio of the fund comprises instruments that have been classified as Shariah compliance by the SAC of the SC or the SAC of BNM.

7B.261 For instruments not classified as Shariah-compliant by the SAC of the SC or SAC of BNM, a statement stating that the status of the instruments has been determined in accordance with ruling issued by the Shariah adviser. Further description on Shariah compliance review and procedures for disposal of Shariah non-compliant securities is covered in Chapter 2 of this study guide.

Relationship between parties in Shariah-Compliant PRS

7B.262 In addition to the common structure of PRS described in the earlier section of this chapter, PRS Consultant must also be aware of the relationships between parties in a Shariah-compliant PRS. These relationships are established based on certain Shariah contracts. These Shariah contracts reflect the type of obligation and responsibilities of the parties. Four Shariah contracts are applied in a Shariah-compliant PRS, which are elaborated in the following table:-

Table 7B.14: Relationship between parties in Shariah contracts

Parties	Shariah Contracts
Among members	**Musyarakah** contract exists between the investors (members) to deal with specified investments, with the view that the profit derived would be shared among them according to capital contribution or any other agreed profit-sharing ratio.
PRS Provider and Trustee	As there is no direct relationship (and due responsibility) between both parties, therefore no contract exists between them. However, both are agents of the members.
Members and PRS Provider	1. **Wakalah (agency)** The PRS Provider is acting for and on behalf of members to invest and manage the PRS. 2. **Bai** Contract of sale and purchase executed between the members and the PRS Provider, which is usually on cash payment basis. 3. **Wadiah Yad-Dhamanah (guaranteed custody)** • Prior to the creation of units • The owners of the units are the members; the custodian is the PRS Provider. • The contract will take place when the PRS PROVIDERS receives payment for the investment.

Parties	Shariah Contracts
Members and Trustee	1. **Wakalah (agency)** Where the Trustee is acting for and on behalf of members to be the custodian of the trust funds and to safeguard the interests of members. 2. **Wadiah Yad-Dhamanah (After the units are created)** • The owners of the units are the members, the custodian is the Trustee and the units are all the assets of the fund in the form of monies and other forms of investments. • The contract exists once the members purchase the units and the depositing of investments by the PRS Provider with the Trustee.

PRACTICE QUESTIONS

Question 1

What are some of the cited benefits from the PRS?

(i) Reduce the needs for Malaysians to invest in unit trusts
(ii) Additional source of long-term capital for economic growth
(iii) Improve the living standards of Malaysians at their retirement
(iv) Increase the fiscal burden of the Government to provide a social safety net

(A) (i) and (iv) only
(B) (i) and (iii) only
(C) (ii) and (iii) only
(D) (ii), (iii) and (iv) only

Answer: (C)

Question 2

Which of these statements are correct with regard to contributors to the PRS?

(i) Employers can contribute on behalf of employees
(ii) The PRS Providers set the minimum contribution amount
(iii) Members can contribute to only one PRS
(iv) Members can stop contributions any time

(A) (i) and (iv) only
(B) (i), (ii) and (iv) only
(C) (i), (ii) and (iii) only
(D) (ii), (iii) and (iv) only

Answer: (B)

Question 3

PRS Provider Delta has three core funds in their PRS. Which of these names can be accepted as names of the core funds?

(i) Delta Growth Fund
(ii) Delta Cash Management Fund
(iii) Delta Moderate Fund
(iv) Delta FBMKLCI Tracker Fund

(A) (I, (ii) and (iii) only
(B) (i) and (iii) only
(C) (ii) and (iii) only
(D) (ii) and (iv) only

Answer: (B)

LIST OF LAWS, REGULATIONS AND GUIDELINES GOVERNING UTS & PRS INDUSTRY

Note: This list is not exhaustive and subject to change. Consultants are encouraged to visit the regulators website to access the latest regulatory documents.

Regulator	Law, Regulations, Guidelines	References/Links
SC	Capital Markets & Services Act 2007	https://www.sc.com.my/api/documentms/download.ashx?id=2093f82c-7929-47e8-9279-f88e3b85dbbf
	Guidelines for the Offering, Marketing and Distribution of Foreign Funds	https://www.sc.com.my/api/documentms/download.ashx?id=e7496dc0-e227-4d24-b7c0-4829b0ab33a9
	Guidelines on Advertising for Capital Market Products and Related Services	https://www.sc.com.my/api/documentms/download.ashx?id=8941a3a6-1b49-4687-89f7-5dc050766fe4
	Guidelines on Compliance Function for Fund Management Companies	https://www.sc.com.my/api/documentms/download.ashx?id=b28a5b5e-cbfc-4162-bf08-ce10670c6f5b
	Guidelines on Exchange Traded Funds	https://www.sc.com.my/api/documentms/download.ashx?id=f9fcc4b8-3829-4835-bcfa-56c0bdecb011
	Guidelines on Islamic Capital Market Products and Services	https://www.sc.com.my/api/documentms/download.ashx?id=8698018f-e56c-4ddc-b20c-3fe46132e115
	Guidelines on Marketing and Distribution of Unit Trust Funds	https://www.sc.com.my/api/documentms/download.ashx?id=12ce932c-e9c8-405a-9b2d-54908785d00e
	Guidelines on Prevention of Money Laundering, Countering Financing of Terrorism, Countering Proliferation Financing and Targeted Financial Sanctions for Reporting Institutions in the Capital Market	https://www.sc.com.my/api/documentms/download.ashx?id=34982547-10c6-4540-a4eb-d5ba9400db70
	Guidelines on Real Estate Investment Trusts	https://www.sc.com.my/api/documentms/download.ashx?id=efad9ab2-37fc-489c-9a8a-0e56964f8d66
	Guidelines on Product Highlights Sheet	https://www.sc.com.my/api/documentms/download.ashx?id=0e79cecd-c0b3-4a7f-b850-b4fe775703bc
	Guidelines on Sustainable and Responsible Investment Funds	https://www.sc.com.my/api/documentms/download.ashx?id=9a455914-71db-4982-a34b-9a8fc7df79b5

Regulator	Law, Regulations, Guidelines	References/Links
SC	Guidelines on the Registration and Conduct of Capital Market Services Providers	https://www.sc.com.my/api/documentms/download.ashx?id=d62f91b7-4e42-40e0-9cf5-96df370358f5
	Guiding Principles on Business Continuity	https://www.sc.com.my/api/documentms/download.ashx?id=451c268a-27a0-4102-84c9-5a1dd5ccfcf0
	Handbook for CIS Operators of ASEAN CIS	https://www.sc.com.my/api/documentms/download.ashx?id=65caf3d7-5bdb-4462-a9e8-d28d76b5db88
	Prospectus Guidelines for Collective Investment Schemes	https://www.sc.com.my/api/documentms/download.ashx?id=ce638a11-0cb1-4937-b9d2-639f980a5773
	SC Licensing Handbook	https://www.sc.com.my/api/documentms/download.ashx?id=1f230c0d-988e-4b34-b497-71d8372a3998
FIMM	Code of Ethics	https://www.fimm.com.my/home/circulars-guidelines/code-of-ethics/
	FIMM's Consolidated Rules	https://www.fimm.com.my/home/circulars-guidelines/consolidated-rules/
	Investment Management Standards	https://www.fimm.com.my/home/circulars-guidelines/investment-management-standards/
	Registration Manual	https://www.fimm.com.my/home/circulars-guidelines/registration-manual/

ABBREVIATIONS

AUM	Assets Under Management
BNM	Bank Negara Malaysia
CCM	Companies Commission of Malaysia
CEO	Chief Executive Officer
CFP	Certified Financial Planner
CFC	Chartered Financial Consultant
CIS	Collective Investment Scheme
CMS	Capital Market Competency Management System
CMSA	Capital Markets and Services Act 2007
CMSL	Capital Markets Services License
CMSRL	Capital Markets Services Representative's Licence
COE	FIMM's Code of Ethics
CPD	Continuing Professional Development
CPRA	Corporate PRS Adviser
CPRE	Computerised PRS Examination
CUTA	Corporate UTS Adviser
CUTE	Computerised Unit Trust Examination
DCT	Dealing Cut-off Time
DOSM	Department of Statistics Malaysia
EPF	Employees Provident Fund (Kumpulan Wang Simpanan Pekerja)
EPF- MIS	Employees Provident Fund - Members Investment Scheme
ETF	Exchange Traded Funds
FBM KLCI	FTSE Bursa Malaysia KLCI index
FCR	FIMM's Consolidated Rules
FIMM	Federation of Investment Managers Malaysia
FMOS	Financial Markets Ombudsman Service
FMC	Fund Management Company
FMUTM	Federation of Malaysian Unit Trust Managers now known as Federation of Investment Managers Malaysia (FIMM)
FPAM	Financial Planning Association of Malaysia
ICF	Industry Competency Framework

ICM	Islamic Capital Market
IFP	Islamic Financial Planner
IMS	Investment Management Standards.
IOSCO	International Organization of Securities Commission
IPO	Initial Public Offering
IPRA	Institutional PRS Adviser
IRB	Inland Revenue Board Malaysia
IUTA	Institutional UTS Adviser
KWAP	Kumpulan Wang Persaraan [Diperbadankan]
LTAT	Lembaga Tabung Angkatan Tentera
MFPAA	Malaysia Financial Planners and Advisers Association. Formerly known as Malaysian Association of Chartered Financial Consultant (MAChFC)
MFPC	Malaysian Financial Planning Council
MSME	Micro, Small and Medium Enterprises
NAV	Net Asset Value
PDPA	Personal Data Protection Act
PHS	Product Highlights Sheet
PPA	Private Pension Administrator
PRS	Private Retirement Scheme
REIT	Real Estate Investment Trust
RFP	Registered Financial Planner
SAC	Shariah Advisory Council of the SC
SC	Securities Commission Malaysia
SCA	Securities Commission Act
SIDC	Securities Industry Development Corporation
SIDREC	Securities Industry Dispute Resolution Center
SPM	Sijil Pelajaran Malaysia
SRO	Self-Regulatory Organisation
TCF	Transaction Cost Factor
TF	PPA’s Transfer Form
UTMC	Unit Trust Management Company(ies)
UTS	Unit Trust Scheme

DEFINITIONS

Accrued benefits	means the amount of a member's beneficial interest in a PRS
Annual management fee	Means, a fee calculated and accrued daily, based on the Gross NAV of the fund paid by the Trustee from the assets of a Scheme to the Scheme Provider for ongoing management of the Scheme. The Gross NAV takes into account fees earned by (but not paid to) the Service Provider up to the previous day. Annual management fees reduce the income of a Scheme. The annual management fee covers management expenses which include expense for portfolio management, the manager's fees, Trustee and custody costs, audit fees, administrative charges like printing of annual reports, distribution cheques, postage and other services properly incurred in the administration of the fund. These costs are paid out of the fund's assets.
Annual growth rate	Means total return for a Scheme over a year, or over a number of years, and averaged out to give an annual figure (usually as an annual compound rate of return).
Application form	Refers to a document accompanying a prospectus (or sometimes incorporated within a prospectus) of a Scheme, which is completed by an investor prior to being forwarded to the Service Provider with the Investor's application money. The application form, which contains the personal and other data necessary to record the Investor as a unit holder/PRS member in the register of unit holders/PRS members of the Scheme, is signed by the investor evidencing agreement to be bound by the terms of the deed.
Application money	Refers to the amount that an investor wishes to invest in units in a Scheme. After dividing the application money by the selling price of a unit in the Scheme, an allotment of the number of units to which the investor has become entitled can be made by the Scheme Provider and an entry to this effect made in the register of unit holders of the Scheme.
ASEAN CIS	has the same meaning to it assigned in the Handbook for CIS Operators of ASEAN CISs
Asset allocation	Refers to the practice of spreading a portfolio of investments across a range of investment assets (e.g. asset classes), e.g. cash, bonds (or fixed income securities), equities and real property, to reduce the level of risk to match the risk tolerance of the investor.
Asset class	Refers to a group of securities or other investment assets, e.g. equities, real property, cash or even artworks and antiques.
Assets of a Scheme	Refers to investments, amounts receivable (e.g. debtors for securities sold, amounts due from a UTMC/PRS Provider for unit creations), dividends receivable, accrued income and cash.
AUM	Refers to asset under management which is the aggregate net value of all of a fund's asset less the fund's liabilities at the end of each

calendar year

Audit	Refers to an examination of the records and operations of a UTS/PRS by an independent person (an auditor) to assess compliance with accounting and regulatory requirements (including those contained within the deed of the UTS/PRS).
Auditor	Refers to an independent person or an approved audit firm appointed by a Scheme to complete an audit of the Scheme and report its findings to unit holders to investors. In the context of PRS, it also means an auditor registered under Section 31O of the Securities Commission Act 1993
Authorised investment	Refers to an investment of a Scheme that meets the restrictions on investment imposed under the terms of the deed. A Trustee will refuse to settle the purchase of an investment that is not an authorised investment.
Automatic reinvestment	Means distributions from a UTS may, at the election of the unitholder, be automatically reinvested in additional units in the UTS by the UTMC. The UTMC may reduce the initial service charge payable by an investor on the units acquired as a result of making such an election.
Bear	Refers to the general trend of the stock market keeps on falling and there are more sellers than buyers and hence the prices of investments are falling. Opposite of Bull.
Blue chips	Refers to a generic description given to large and well-capitalised companies whose shares are listed on a stock exchange.
Bond	Refers to debt security issued as evidence of a loan by the bondholder to the bond issuer. A bond issuer may be a government, government authority or corporation. The bondholder is entitled to repayment of the amount of the loan at some future time plus interest payable during the period of the loan.
Bull	Refers to the general trend of the stock market is rising rapidly and there are more buyers than sellers and hence the prices of investments are rising. Opposite of Bear.
Cancellation of units	Represents a decrease in the number of units in circulation of a Scheme. A unit is cancelled by the Trustee at the request of the Scheme Provider and the Trustee pays an amount from the assets of the Scheme to the Scheme Provider. The amount payable reflects the NAV of a unit, thereby maintaining the NAV of all units in circulation following the act of cancellation.
Cash	Refers to money market instruments (e.g. loans) repayable at short notice, e.g. bankers acceptances, call deposits (or equivalent Islamic products for Shariah-compliant Scheme). In a Scheme, notes and coins do not generally form part of the assets of the Scheme.
Certificate	After the purchase of units in a UTS, a unitholder may receive a

	certificate (or scrip). This is evidence of ownership. The certificate will show the number of units the unitholder holds in the UTS and will be signed by the Trustee and the UTMC. Now commonly replaced by statements of units held in a Scheme printed on request. Units of a UTS for which certificates are not issued are sometimes referred to as non-certificated units.
Charges	Refer to various fees and costs are paid by investors in a Scheme as a result of buying and holding units. These include initial service charges, annual management fees and exit fees.
Closed-end fund	Means a fund with limited number of units in issue and has a limited offer period
CIS	Refers to Collective Investment Scheme. For the purpose of this study guide, it means Schemes or any arrangement where– (a) it is made for the purpose, or having the effect, of providing facilities for persons to participate in or receive profits or income arising from the acquisition, holding, management or disposal of securities, derivatives or any other property (referred to as "Schemes' assets") or sums paid out of such profits or income; (b) the persons who participate in the arrangements do not have day-to- day control over the management of the Schemes' assets; and (c) the contributions from the persons who participate in the arrangements and the profits or income from which payments are made, are pooled; and (d) except for gold exchange-traded fund (ETF), the Schemes' assets are managed by an entity who is responsible for the management of the Schemes' assets and is approved/authorised or licensed by a securities Regulator to conduct fund management activities; For the purpose of this Study Guide, the definition of CIS does not include business trust.
Commission	Refers to the amount payable by a Scheme Provider to a Consultant for selling units in a Scheme to clients and calculated as a percentage of the application amount (known as initial commission); or for continuing to provide service to clients who remain as unitholders in the Scheme and calculated as a percentage of the value of the unitholder's units paid at regular intervals (known as a trail commission).
Compliance	Refers to a series of procedures and practices designed to ensure that both external laws and regulations applicable to an entity (such as a Distributors, Trustee, Schemes) and its internal rules are complied with.
Compliance manual	A Scheme Provider must maintain a Compliance Manual setting out how the Scheme Provider will ensure compliance with its obligations.

Compliance unit	Refers to a group of individuals (headed by a Senior Compliance Officer reporting to the Board of Directors of a Scheme Provider) responsible for compliance by a Scheme Provider with all the obligations imposed by the deed, securities laws, Guidelines, Compliance Manual, etc.
Conditionally vested unit	Means a unit which accords a member with entitlement to the unit that is conditional upon fulfillment of condition(s) stipulated in a vesting schedule
Consultant	Means an individual registered with FIMM and authorised to market and distribute UTS and/or PRS.
Contribution	Means the amount paid by a contributor to the PRS
Contributor	Means any person who contributes to a PRS and includes a member or an employer who makes contribution to a PRS on behalf of his/her employees
Cooling-off right	Means the right of an investor to obtain a refund of the investor's investment in the fund, if the investor so requests within the cooling-off period.
Core funds	Means one or more of the funds under the default option, namely the conservative fund, moderate fund and growth fund that meet the investment limits specified in PRS Guidelines.
Covenants	Refers to conditions under the deed of a Scheme pledged by the parties, particularly the Scheme Provider and Trustee, either to each other or to the unitholders, e.g. a Scheme Provider is required to repurchase the units of a unitholder on request of the unitholder.
Creation of units	Refers to a creation of units represents an increase in the number of units in circulation of a Scheme. A unit is created in exchange for cash payable by the Scheme Provider to the Trustee for the account of the Scheme. The amount payable reflects the NAV of a unit, thereby maintaining the NAV of all units in circulation following the act of creation.
Cum distribution	Means the selling price of a unit in a Scheme is cum distribution when it includes an entitlement to the next declared distribution. Opposite of Ex Distribution.
Custodian	Usually refers to the Trustee (or a Trustee-appointed bank or other financial institution responsible to the Trustee), who has custody or safekeeping of securities and other assets of a Scheme. Term is sometimes used interchangeably with 'Trustee'. A custodian has, however, fewer fiduciary responsibilities than a Trustee.
Dealings	The term used to describe the purchase and sale of units in a Scheme by an investor through the Scheme Provider of the Scheme. Most unit trusts can be dealt daily, e.g. each business day.
Deed	The legal document executed between the Trustee of a Scheme and the Scheme Provider, which lays down the framework within which

	all the parties, including the unitholders, must operate. It specifies in detail how the Scheme is to operate and be managed and how fees are to be charged. The Investor agrees to be a party to the deed by completing and signing an application form for units in the Scheme
Default option	Refers to core funds that will be selected automatically for a member who does not specify his or her fund option upon participating in a PRS.
Derivatives	Refers to a financial instrument with characteristics and value that are dependent upon the value of underlying indices or assets such as currencies, securities, commodities or other derivative instruments.
Distributions	Refers to payments made to unitholders out of the accounting income of a Scheme. Distributions are paid with an income tax credit reflecting tax payable on the income of the Scheme. An investor can offset the credit against his or her tax liability or, if no tax liability exists, can reclaim the tax paid. A tax voucher issued to each unitholder by the Scheme Provider contains the required information. At the investor's request, the distribution can be paid or reinvested in additional units in the UTS (see Automatic Reinvestment).
Distribution Channel	Refers to intermediaries through which Schemes are marketed and distributed to investors. In the context of this study, distribution channels can include Consultants, IUTA, CUTA, IPRA and CPRA
Distribution date	Means the date when a distribution is paid to (or reinvested on behalf of) a unitholder in a UTS/PRS. This date is usually several weeks after the distribution has been announced. Most UTS/PRS pay distributions once a year.
Diversification	A Scheme will spread its assets among a number of investments (or asset classes) in order to reduce portfolio risk. Thus, the impact of losses incurred on some investments is expected to be offset by gains on those increasing in value. One of the major benefits of investment in a Scheme.
Dollar cost averaging	An investment strategy whereby an investor invests the same amount of application money each period in a Scheme, such that when unit selling prices are high fewer units are bought, and when unit selling prices are low more units are bought. By investing in such a way, the investor avoids placing all his or her funds in the market at either the top or the bottom of the market cycle, thereby reducing risk.
EPF Act	Means the Employees Provident Fund Act 1991
Exit fee	Refers to a fee charged by a Scheme Provider to an investor in a Scheme who sells his or her units in the Scheme. Also called a redemption fee, repurchase charge or back-end load. The amount payable is usually a percentage of the NAV per unit from the sale of units, which is deducted from the proceeds prior to payment to the investor.

Equalisation	Refers to the part (in Ringgit) of a creation or cancellation of units in a Scheme by a Scheme Provider, which is represented by the accumulated net income of the Scheme in the accounting period to the date of the creation or cancellation (and which is included within the NAV of a unit on that date). The total of such equalisation amounts over an accounting period is added to the accumulated income of the Scheme and may be returned to unitholders as a (non-taxable) refund of capital as part of the next distribution. The objective of separately accounting for equalisation on creation and cancellation of units in a Scheme is to ensure that the distribution of income returned to unitholders (sen per unit) is not diluted (reduced) by increases or decreases in the number of units in circulation during the accounting period to which the distribution relates.
Ex distribution	Unit selling price of a Scheme is quoted 'ex distribution' following the last day (record date) on which entitlement to a declared distribution of a Scheme is available to investors. An investor buying units during the ex-distribution period (which ends on the payment date) is not entitled to the distribution subsequently paid. An investor whose units are repurchased during that period is, however, entitled to receive that distribution.
Fiduciary responsibilities	Refers to the obligations to act in the best interests of another person or persons. A fiduciary must, for example, avoid any conflict of interest situation and should not make a 'secret' profit from his or her position. A Scheme Provider and Trustee of a Scheme have fiduciary responsibilities to the holders of units in a Scheme.
Financial Institution	For institutions based in Malaysia - licenced bank, licenced investment bank or licenced Islamic bank. For institutions based outside Malaysia, any institutions that is licenced, registered, approved or authorised by the relevant banking regulator to provide financial services.
Forward price	Means the price of a unit that is the NAV per unit calculated at the next valuation point after an instruction or a request is received.
Forward rate agreement	Refers to a contract for the loan at some future time of a sum of money at an agreed rate of interest for a specified period. A hedge instrument used by a UTS/PRS to protect against future movements in interest rates.
Fulcrum Fee model	A fulcrum fee is a performance-based fee that adjusts up or down based on outperforming or underperforming a benchmark. Fulcrum fees can be charged by a financial adviser or an asset manager to qualified clients to link outperformance (or lack thereof) to compensation
Fund Manager	Means a person who holds a CMSRL to carry out the regulated activity of fund management
Futures	Refer to financial contracts (or derivatives) that give the holder the obligation to buy or sell a certain commodity or financial instrument at a fixed price at a specified date in the future. A Scheme may invest

	in futures contracts (within strict guidelines imposed by the SC) for hedging purposes only.
Gearing	A method of acquiring units in a Scheme with borrowed money. The lender usually takes security for the loan against the units acquired. The borrower (e.g. the investor) expects to earn a total return from the units acquired that is in excess of the cost of borrowing. Gearing considerably increases the investor's risk.
Government	Means the government of Malaysia
Growth fund	A Scheme which expects to pay a very low annual distribution (if any) and concentrates on investing with a view to increasing the price of the units by focusing on growth assets such as shares and real property.
Group of companies	Means any company and its related corporations
Guidelines	Refer to a document that provides Scheme Provider with the SC's interpretation of securities laws. Also a method by which the SC communicates its other requirements of Scheme Providers. The FIMM adopts this term to communicate its rules and requirements of members (see Practice Note).
Hedging	Term used to describe investment transactions taken by a Scheme Provider to protect an existing portfolio of a Scheme against adverse fluctuations in the prices of those investments. Fund managers can choose between various methods including futures, options and forward rate agreements.
Historical pricing	Means the price of a unit that is the NAV per unit calculated at the valuation point before an instruction or request is received.
Ijarah	A sale or purchase of the use of another person's property. The ownership of the property remains with the lessor while the lessee only owns the right of the use of the property.
Income entitlement	Refers to the amount of income of a Scheme for an accounting period from which the directors of the Scheme Provider of the Scheme decide (with the approval of the Trustee) the amount of the distribution that is to be payable to, and divided equitably amongst, investors in the Scheme. The income entitlement of each investor in a Scheme is determined in accordance with the deed. Most commonly, a distribution amount (in sen per unit) is applied to the number of units each investor holds on the record date. Alternatively, an investor's income entitlement may be determined on a unit day entitlement basis. Other methodologies of determining an investor's income entitlement may be described within a deed of a Scheme. The difference between the amount of income of a Scheme and the distribution to investors is carried forward to future years.
Income of a Scheme	Refers to the amount of dividends, interest, rents, realised net capital gains, etc derived from the assets of a Scheme, less expenses included within the Management Expense Ratio and taxation, and plus equalisation that is available for distribution to unitholders in a Scheme.

Income fund	Refers to a Scheme which main aim is to produce income rather than capital growth for unitholders. The Scheme would invest in assets, such as shares that pay a high dividend and fixed income investments. Income funds expect to pay a high level of regular distributions to Investors.
Independent Member	In relation to the Board of Directors of a PRS Provider, or the Shariah adviser, means a person who is free of any relationship with the PRS Provider or the controlling shareholder(s) of the PRS Provider that would otherwise interfere with the Member's or person's exercise of independent judgment. In any case, a period of six months must elapse before a person who was previously connected to the PRS Provider or controlling shareholder(s) can be deemed to be independent. The following is a non-exhaustive list of persons who would not be considered as an "Independent Member": (a) In relation to the board of directors of a PRS Provider, an officer of the PRS Provider or Management Company but excluding its independent director; (b) In relation to a Shariah adviser, an officer of the management company and PRS Provider; (c) An officer of the Scheme Trustee; (d) An officer of any body corporate or unincorporate that has the power to appoint or make recommendations towards the appointment of the board of directors of the PRS Provider, or the Shariah adviser of the fund; (e) A person related to an officer of the PRS Provider or Scheme Trustee of the PRS; (f) A person representing or seen to be representing the controller of the PRS Provider; or (g) A person who, within six months prior to his or her appointment as independent member, has derived any remuneration or benefit (other than retirement benefit) from the PRS Provider or any body corporate or unincorporate that has power to appoint or make recommendations towards the appointment of board of directors of the PRS Provider, or the Shariah adviser of the fund.
Index fund	Refers to a passively managed Scheme that attempts to capture the returns of a stock exchange index comprising shares (or bonds) by holding shares (or bonds) in the same composition as that of the index. This allows the total return of the Scheme to closely track the performance (total return) of the index.
Initial offer price	This is normally associated with the launch of a Scheme. When a Scheme Provider decides to launch a Scheme, it normally sets aside about three weeks as the initial offer or selling period. During this period, it will sell units at a fixed price, usually at an initial offer price of RM1.00 per unit. Following the close of the initial offer period, the

	selling price of units may fluctuate in line with the NAV of the Scheme.
Initial service charge	Refers to sales charge or entry fee levied by a Scheme Provider on the initial purchase of a Scheme. The charge is sometimes called a 'load', 'front end load', sales or entry charge. The charge can be expressed either as a fixed amount or calculated as a percentage of the NAV of a unit.
Insider Trading	Refers to the practice of buying or selling securities as a result of knowledge acquired by the purchaser or seller (usually as a result of the purchaser's or seller's privileged position as someone working within or inside an organisation) that is not yet available to public investors.
Institutional Investor	Refers to an organisation (such as a Scheme Provider, insurance company, pension or provident fund, or a fund manager who invests on behalf of such investors) that invests either its own assets or the assets of others (which are usually held on trust).
Investment	Refers to an asset held purely for the purpose of generating income and/or capital growth.
Investor	Represents a collective term for unit holder and PRS investor
Liabilities of a Scheme	Include all amounts payable by the fund, accrued expenses and taxes, and any appropriate provisions for contingencies.
Liquidity	Refers to the amount of a Scheme's assets that is not invested. Liquidity is also referred to as 'cash' or 'cash available for investment'.
Lump sum investment	Refers to a one-off receipt of application money for investment into a Scheme (see Regular Savings Plan).
Management company	A UTMC and/or PRS Provider
MER	Refers to Management Expense Ratio - the sum of the expenses charged to, or paid by, a Scheme during an accounting period (excluding certain costs such as brokerage on acquisitions and disposals of investments, and taxation), divided by the average NAV of the Scheme during that period. Usually expressed as a percentage. The MER is a summary of the ongoing expenses incurred by a Scheme, which act as a drag on the investment performance of the Scheme. Calculated by the Scheme Provider, usually each year in arrears, and disclosed to investors in a prospectus for the Scheme.
Master prospectus/ Disclosure document	Refers to a single prospectus/disclosure document containing an invitation to investors to acquire units in more than one Scheme.
PRS Member	Has the meaning assigned to it in Section 139A of the CMSA
Money Market Fund	Refers to a Scheme in which assets are held entirely as cash (e.g. money market instruments with a maturity of less than 12 months).

	Objective of the Scheme is to offer investors access to higher rates of interest usually available in the institutional money market compared to those obtainable from retail banks and similar financial institutions. Also known as a 'cash management trust' or 'money fund'.
Mudharabah	Refers to an agreement between a provider of funds who provides 100% capital for the financing and an entrepreneur who manages the business applying his or her expertise. Profit is to be shared between them according to an agreed ratio, while loss is to be borne solely by the provider of the capital.
Musharakah	Refers to an agreement between two or more parties whereby all parties contribute capital either in the form of cash or kind to form a company to carry on commercial activities. The profit is shared based on equity participation or as agreed between the parties; loss is shared according to equity participation.
Mutual Fund	Refers to an open-ended fund commonly found in the United States which is similar to a Scheme.
NAV per unit	Means the NAV of the fund divided by the number of units in circulation, at the valuation point.
NAV	Refers to Net Asset Value; the value of all the fund's assets less the value of all the fund's liabilities at the valuation point.
Non-core funds	Refers to the funds under a Scheme that are not core funds.
Offshore Fund	A collective investment vehicle operated outside the jurisdiction of the Malaysian authorities.
Open-ended fund	Refers to a Scheme (or other collective investment vehicle) that offers regular (often daily) opportunities to invest through the issue of interests in the fund. An investor is normally required to apply on the basis of a prospectus/disclosure document, which must meet regulatory requirements, issued by the promoter of the fund. An investor is able to sell back his or her interests in the fund to or through the promoter and hence, the fund invests predominantly in assets that are traded on secondary markets or which are otherwise readily liquid. The number of units in circulation of an open-end fund is not fixed. Opposite of Closed-End Fund.
Option	Refers to a financial contract (or derivative) that gives the holder the right but not the obligation to buy (e.g. receive) or sell (e.g. deliver) a certain commodity or financial instrument at a fixed price at a specified date in the future. An amount paid for an option that is not exercised is lost. Exchange Traded Options are options over listed equities, which are usually bought and sold on an exchange prior to the expiry date to close an existing position (rather than be exercised). A Scheme may invest in options (within strict guidelines imposed by the SC).
Ordinary resolution	Means a resolution passed by a simple majority of votes validly cast at a meeting of unit holder/members of the Scheme or the fund (where appropriate)

Passive portfolio management	Refers to the management of funds where the investment manager buys and sells investments comprising an index with a view to achieving total returns equal to that of an index. Generally, the investment manager makes no judgement on the merits or otherwise of individual investments held in the portfolio. Opposite to active portfolio management.
Portfolio	Means a holding of various investments structured in such a way as to meet the owner's (for example, a UTS/PRS) investment objectives, e.g. by asset class or by investment sector within an asset class.
PTR	Refers to Portfolio Turnover Ratio; the ratio of the average sum of acquisitions and disposals of the fund for the year to the average value of the fund for the year calculated on a daily basis
Practice Note	Refers to a document issued by the SC clarifying and/or amending its previously issued Guidelines.
Pre-retirement withdrawal	Means withdrawals from any fund under a Scheme that occurs prior to a member reaching retirement age and for the following reasons: (a) Upon the death of a member; or (b) Permanent departure of a member from Malaysia; or (c) permanent total disablement; serious disease; or mental disability of a member; (d) Withdrawal of any accrued benefits from sub- account B as maintained by PRS Providers for each member; (e) for healthcare purpose; or (f) for housing purpose;
Principal	In relation to a Consultant, means the Distributor for whom his or her registration is tied to.
Private pension account	Means an account opened and maintained by the Private Pension Administrator for each member
PPA	Refers to Private Pension Administrator and has the meaning assigned to Private retirement Scheme Administrator in Section 139A of the CMSA
PRS	Refers to Private Retirement Scheme that has the same meaning assigned to it in the CMSA
PRS Consultant	Means a Consultant of a Private Retirement Scheme
PRS Distributor	Means a Distributor of a Private Retirement Scheme
PRS Guidelines	Means Guidelines on Private Retirement Schemes

PRS Provider	Means a Private Retirement Scheme provider. In this regard, “Private Retirement Scheme Provider” has the same meaning assigned to it in the CMSA
PRS Regulations	Means the Capital Markets and Services (Private Retirement Scheme Industry) Regulations 2012
Prospectus	Refers to the legal document (lodged and approved by the SC) that describes the investment objectives, risks, investment limitations, policies, services and fees of a UTS. It must be made available to all investors who wish to invest in UTS and must comply with the securities laws and the SC’s Guidelines prior to issue. Issued by a UTMC whose directors take sole responsibility for its content.
Real property	Refers to land and buildings held by a property trust for the benefit of investors. Returns generally include rent (net of expenses) and capital appreciation as the value of the land and buildings grows or as development of the land and buildings occurs.
Registration Guidelines	Refers to Guidelines on the Registration and Conduct of Capital Market Services
Regular savings plan	Refers to a periodical payment (usually monthly or per pay period) of application money for investment into a Scheme. Usually, payments are made by direct debit, standing order, or by payroll deduction to the Scheme Provider for investment on the applicant’s behalf (see Lump Sum Investment).
Repurchase price	Refers to the unit price at which a Scheme Provider buys back units in a Scheme from a unitholder/member who wishes to sell his or her units. Sometimes referred to as the ‘bid price’ or ‘buying price’.
Repurchase transactions	Means “sale and repurchase transactions” and “reverse repurchase transactions” collectively.
Reverse repurchase transactions	Means transactions whereby a Scheme purchases securities from a counterparty of sale and repurchase transactions and agrees to sell such securities back at an agreed price in the future.
Retail Investors	Refer to individuals who invest their savings either directly in the financial markets, or indirectly through collective investments such as a Scheme. Retail investors are the major target market for most Scheme Provider. The major advantages of indirect investment are the ability to spread risk across a range of investments or asset classes and the professional management of those investments at a reasonable cost, given the smaller investment amounts contributed by retail investors.
Retirement age	Means the age of 55 years or any other age as may be specified by the SC.
Riba	In lending, it is the extra payment imposed by the lender or promised by the borrower over and above the loan. In trading, it is mostly the difference in weight in the exchange of gold of different measures of purity, e.g. 10gm of 750 gold with the 8gm of 835 gold; or the difference in time between payment and delivery in foreign currency

	exchange, e.g. payment of RM10,000 at 10.00am and delivery of USD3,800 at 3.00pm on the same date.
Risk	Refers to the volatility of an investment, or the probability that the investment will lose value. A Scheme investing in bonds (where the regular interest receipts and capital return at maturity are more predictable) is likely to be less volatile than a Scheme investing in equities (where the dividends and ultimate value on disposal are considerably less predictable). The probability of an investor losing all or part of his or her investment when investing in an equity Scheme is therefore likely to be greater than when investing in a bond Scheme. By contrast, a fixed term deposit with a major bank is an investment with no capital volatility and low repayment risk and therefore is an investment with negligible risk.
Risk tolerance	Refers to the ability of an investor to accept the risk of loss, either temporarily or permanently (e.g. total loss), of his or her investment capital. The risk tolerance of an investor depends on a number of factors, including the period of time for which the investment can be retained before disposal.
Sale and repurchase transactions	Means transactions whereby a fund sells its securities to a counterparty of reverse repurchase transactions and agrees to buy such securities back at an agreed price with a financing cost in the future
Scheme	Means a UTS or a PRS, as the context requires and “Schemes” refer to UTS and PRS collectively
Scheme Provider	Refers to a collective term for unit trust and PRS provider
Securities Lending	Means transactions whereby a Scheme lends its securities to a counterpart for an agreed rate
Selling price	Refers to the price at which units in a UTS/PRS are sold to the public by the UTMC/PRS Provider. It should be the NAV per unit of the UTS/PRS and sometimes referred to as the ‘offer price’ or ‘sell price’.
Special resolution	Means a resolution passed by a majority of not less than 3/4 of unit holders/members voting at a meeting of unit except for the purpose of terminating a fund, a special resolution is passed by a majority in number representing at least 3/4 of the value of the units held by unit holders/ members voting at the meeting.
Split	Refers to the division of a single unit of a Scheme into several units, the total value of which is exactly equal to the value of the unit prior to the split. A unit valued at RM2 would become two units of RM1 each following a 2 for 1 split. The objective of a split is to make the selling price of a unit more attractive to potential investors; a lower selling price following the split means an investor would be allotted a greater number of units in the Scheme for a given amount of application money. A split does not increase or decrease the NAV of the Scheme or the value of unitholders’ interests in the Scheme.

Sub-account A	Refers to a portion of a PRS account which holds 70% of all contributions made to any fund under the Scheme which is reflected in units
Sub-account B	Refers to a sub-account maintained by PRS Providers for each member which holds 30% of all contributions made to any fund under the Scheme which is reflected in units
Supplementary prospectus/ disclosure document	Refers to the addition to a current prospectus/disclosure document required by law to be issued by the directors of a Scheme Provider to ensure that the original prospectus/disclosure document continues to be compliant with the law. Changes in a prospectus may have the effect of making the prospectus/disclosure document misleading to potential investors and therefore non-compliant with the law. A supplementary prospectus/disclosure document must accompany the original prospectus/disclosure document.
Suspension	A period of time during which the Trustee, with approval of the SC, determines that it is not in the interests of investors to allow investments of a Scheme to be sold, e.g. where those investments cannot be liquidated or sold at an appropriate price or on adequate terms, and therefore unit prices cannot be calculated. No creations, cancellations, sales or repurchases of units are allowed during such a period. Suspensions are rare but could occur, for example, during periods when stock markets in which a Scheme invests are temporarily closed.
Shariah	Refers to Fiqh or Islamic Law comprising the whole body of rulings pertaining to human conduct derived from the rulings' respective particular evidences. The respective particular evidences are the sources of the Shariah, the primary sources being the Quran, Sunnah, ijma (consensus) and qiyas (analogy), and the secondary sources being the method of reasoning applied by Muslim jurists in their ijtihad (personal reasoning).
SAC	Shariah Advisory Council of the SC
Shariah committee	Refers to a group of individuals (minimum of three) who ensure that a Scheme is managed and administered in accordance with Shariah principles. A Scheme managed in accordance with Shariah principles must appoint a Shariah Committee. These individuals must be approved by the SC before they can be appointed.
Sukuk (Islamic Bond)	Plural of sok, it is being used in the singular to refer to a document or certificate evidencing an undivided pro-rate ownership of an underlying asset. It is a capital market financial instrument traded in the secondary market.
Switch	A repurchase of units in a Scheme by a Scheme Provider at the request of a unitholder and the immediate reinvestment of the repurchase proceeds as application money into a different Scheme managed by the same Scheme Provider. Depending on the type of funds, a Scheme Provider may reduce or increase the initial service charge in relation to an application that is part of a switch.
Takaful	A mutual guarantee in return for the commitment to donate an amount in the form of a specified contribution to the participants' risk

	fund, whereby a group of participants agree among themselves to support one another jointly for the losses arising from specified risks.
Tied-agent	A tied-agent is a UTC who distributes units in one or more Scheme managed by a single Scheme Provider, and who is paid commission by the Scheme Provider. The tied agent is obligated to the Scheme Provider (the tied-agent's principal).
Total return	Means the sum of the income generated by the fund which is reflected as distribution and the capital gains or loss of the fund which is reflected in the movement in the price of a unit.
Transaction cost factor	Refers to an amount added to the NAV of a unit in a Scheme to prevent dilution of the interests of the existing unitholders in the Scheme. Incoming investors will otherwise benefit from the brokerage and other transaction costs previously incurred by a Scheme (and therefore by existing unitholders) in acquiring the portfolio of investments forming part of the NAV of the Scheme. Sometimes referred to as an 'expense allowance'.
Trustee	Refers to an organisation (such as a subsidiary of a bank or other financial institution) approved by the SC to act on behalf of unitholders in a Scheme. The role of the Trustee is to ensure that the Scheme Provider adheres to the conditions laid down in the deed (and securities laws and regulations) and to protect unitholders' interests. The Trustee holds the assets of a Scheme in its own name or under its control through a custodian.
Unit	Refers to a single interest in a Scheme. Each unit in a Scheme is equivalent to any other unit (especially in value) and has the same rights and entitlements, e.g. to vote and to share in the income and capital of the Scheme. In many respects, but not all, similar to a share in a limited liability company.
Unit day	Refers to the period of ownership by an investor of a single unit in a Scheme. 100 units held for 10 days represents 1000 unit days.
Unit day entitlement	Refers to the method of determining distribution entitlements of investors of some Scheme (particularly one with an income objective). Each unit holder in the Scheme receives a distribution for an accounting period reflecting not only the number of units held but also the number of days during the accounting period for which those units were owned. Alternative to distribution entitlement based on the number of units held on a record date.
Unit holder	Refers to investor in a UTS and owner of interests in the UTS. The number of units held represents the extent of an Investor's interest in the UTS. In some, but not all respects, similar to a shareholder of a limited liability company.
Units in circulation	Means units created and fully paid.
Unit trust	Refers to the type of collective investment vehicle established under a deed. The preferred structure of investors, particularly retail investors, in Malaysia for the benefits of pooled investment.
UTF Guidelines	Refers to the SC Guidelines on Unit Trust Funds.

Valuation	Refers to the market or assessed value of an investment held by a Scheme used to determine the NAV of the Scheme. The market value of an investment is usually obtained from an external pricing service that obtains actual prices at which trades have been transacted on a market such as Bursa Malaysia. The assessed value of an investment is a 'fair' value as determined by a skilled valuation specialist such as a real estate valuer, fixed interest dealer or, less commonly, by the auditor of a Scheme.
Valuation point	Refers to the point in time at which the NAV of a Scheme is determined by reference to market prices and from which the selling price and repurchase price of a Scheme are calculated.
Vested unit	Means a unit which accords a PRS member with unconditional entitlement to such unit
Vesting schedule	Refers to the schedule that determines the entitlement of an employee's accrued benefits based on terms of service
Wadiah Yad Dhamanah	Refers to goods or deposits that have been deposited with another person, who is not the owner, for safekeeping. As wadiah is a trust, the depository becomes the guarantor and therefore guarantees repayment of the whole amount of the deposits, or any part thereof, outstanding in the account of depositors when demanded. The depositors are not entitled to any of the profits but the depository may provide returns to the depositors as a token of appreciation.
Wakalah	Refers to a contract of appointment as an agent where a person appoints another as his/her agent to act on his/her behalf
Yield	The current yield of a Scheme is the amount of the most recent distribution for an accounting period of 12 months generated by the Scheme (in sen per unit) divided by the selling price of a unit in the Scheme. It is usually quoted gross (e.g. before the investor is subject to income tax on the distribution). The distribution amount used in the calculation is after all fees included in the MER have been deducted from the gross income of the Scheme (see also Total Return).