

ASISA CIS OPERATIONS GUIDELINE

Effective date: October 2017

Date of latest update: 25 October 2022

INDEX

1. SCENARIOS WHERE OPERATIONS HAVE BEEN BROUGHT TO A STANDSTILL	2
2. CURRENT YIELD* FOR INCOME GENERATING CIS PORTFOLIOS	4
3. CALCULATION OF 1-YEAR TER	6
4. TEMPORARY SUSPENSION OF TRADING OF PARTICIPATORY INTERESTS OF A COLLECTIVE INVESTMENTS SCHEME	7
HISTORY OF AMENDMENTS	9

1. SCENARIOS WHERE OPERATIONS HAVE BEEN BROUGHT TO A STANDSTILL

1.1 Background

The aim of this Guideline is to provide guidance in scenarios when, whatever the cause or the duration,

- a Net Asset Value (NAV) for a CIS portfolio cannot be calculated, and/or
- purchases and/or repurchases of participatory interests in a CIS portfolio cannot be processed.

Such incidents bring operations to a standstill, cause disruptions in the industry, create uncertainty and introduce risk. The impact is often much wider than only the affected party and the direct clients and stakeholders that engage with the affected party. Affected parties could be participants in the CIS industry, asset management back offices, administrators and/or platform providers.

1.2 Principles

ASISA members should consider –

- their business circumstances and make decisions in their own business contexts;
- treating clients fairly principles;
- the impact on liquidity in the market; and
- limiting disruption in the industry as far as possible.
- regulatory requirements

1.3 Considerations to guide communication

- The affected ASISA member is responsible for informing the Regulator, ASISA, clients and any other third party that they engage with on a regular basis as soon as it becomes evident that there is an issue affecting third parties. Appropriate updates should also be considered.
- The affected ASISA member should advise their clients and third parties to contemplate notifying other parties that may not have a direct relation to the affected ASISA member.
- ASISA is responsible for forwarding the communication as received from the affected ASISA member to relevant committee structures and contact persons of relevant ASISA members. The communication should identify a contact person at the affected ASISA member.
- On a case-by-case basis and depending on feedback from and a request by members, ASISA may facilitate a meeting for the purpose of sharing information regarding the matter at hand.

1.4 Considerations to guide the Calculation of NAV's

A CIS Manager/platform provider may decide to –

- use the latest available price and then re-price when prices become available to determine the materiality on both the CIS portfolio and the investors, or
- estimate a price based on the current price and then re-price when prices become available to determine the materiality on both the CIS portfolio and the investors, or
- suspend pricing until up-to-date prices become available.

1.5 Considerations to guide the processing of purchases and/or repurchases

A CIS Manager/platform provider may decide as follows, considering –

- the circumstances of the case;
- the size of the transactions;
- scenarios where arbitrage opportunities may arise which may negatively affect existing investors;
- the impact on monthly annuity payments and salary runs for advisors;
- potential liability.

These are intended to be examples with some considerations and not an exhaustive list.

- a) Delay the processing of purchases and/or repurchases.
- b) Proceed with the processing of purchases and/or repurchases followed by correcting actions when up-to-date prices become available. A liability for price differences may arise.
- c) Proceed with the processing of a certain percentage of purchases and/or repurchases followed by correcting actions when up-to-date prices become available. Liability for price differences may be limited if a CIS Manager corrects value prior to making final payment to the investor.



2. CURRENT YIELD* FOR INCOME GENERATING CIS PORTFOLIOS

2.1 Background

There is no obligation for Managers to provide current yields for income generating CIS portfolios and these guidelines do not intend to create such an obligation. However, if a current yield is quoted in minimum disclosure documents, fund fact sheets or other marketing material, it is recommended that it should be calculated according to these guidelines.

The guideline is intended to provide for the consistent calculation of a current yield for income generating CIS portfolios to enable the comparison of current yields. It does not and cannot cover every type of special feature or circumstance of individual portfolios. It is a matter for the Manager to consider for each fund whether additional disclosures need to be made in particular cases.

2.2 Calculation of the Gross Yield

All quoted current yield figures should be expressed in nominal terms as a percentage and rounded to the nearest two decimal places.

2.2.1 For an Income Generating CIS Portfolio holding simple instruments the yield must be calculated as follows:

- a. Instrument Current Yield = Instrument Coupon Rate multiplied by the Instrument Nominal Value divided by the Instrument Clean Market Value.
- b. Instrument Weighted Current Yield = Instrument Current Yield multiplied by the Instrument Clean Market Value divided by the Total Portfolio Clean Market Value.
- c. Portfolio Current Yield = Sum of Instrument Weighted Current Yields as calculated in point b above.

Consider the following example:

Instrument Description	A	B	C	Instrument Accrued Interest	Instrument Total Market Value	Instrument Current Yield (B x A) / C	Instrument Weighted Current Yield E x (C / D)
	Instrument Nominal	Instrument Coupon Rate	Instrument Clean Market Value				
CCT01 City of Cape Town Municipality 12.57% 230623	3,171,000.00	12.57	3,504,892.67	140,873.26	3,645,765.93	11.37	0.72
DV24 Development Bank 9.69% 18022024	261,000.00	9.69	266,392.63	4,988.88	271,381.51	9.49	0.05
GRT17 Growthpoint 10.15% 17102023	21,401,900.00	10.15	22,295,303.49	83,321.88	22,378,625.37	9.74	4.17
R 186 Republic of South Africa 10.50% 211226	17,145,008.00	10.50	19,573,824.70	646,107.91	20,219,932.61	9.20	3.15
R 213 Republic of South Africa 7.00% 280231	8,060,900.00	7.00	7,036,984.33	95,847.33	7,132,831.66	8.02	1.29
Total	50,039,808.00		52,677,397.82	971,139.26	53,648,537.08		9.38

* All references to current yield also pertain to running yield.

2.2.2 Where an Income Generating CIS Portfolio holds more complex instruments the following additional calculations apply:

- a. If possible, derive a coupon rate to be applied in the above basic formula (e.g., for Inflation Linked Bonds use the Inflation Rate plus the bond spread). Where a coupon rate cannot be accurately determined the daily accrual should be 5annualized and divided by the instrument clean market value to calculate the instrument running yield.
- b. For Property Stock and Preference shares, use the historic dividend yield to apply as coupon rate in the above basic formula. For new property stock, an indicative yield can be determined based on similar entities or by using the pre-listing statement.
- c. Where the Income Generating CIS Portfolio holds foreign instruments, the current Forex Rate should be used to convert these instruments to base currency to calculate the instrument current yield.
- d. For investments in other fixed income funds, use the latest published current yield to apply as coupon rate in the above basic formula. If the current yield is not available, the historic yield may be used.

2.3 Calculation of the Net Yield

Fund expenses must be deducted from the Gross Current Yield calculated in point 2 above prior to publication in Fund Fact Sheets or any other marketing material.

Where a fund has multiple share classes it will be necessary to calculate and quote a different net yield for each of those classes.

- a. Where a 1 Year TER calculation is updated quarterly, this 1-year TER value should be deducted from the Gross Current Yield to derive a current yield net of fund expenses.
- b. Where a 1-year TER is not recalculated quarterly, deduct all fund expenses as defined in section 6.1 of the ASISA Standard: Calculation and Disclosure of Total Expense Ratios and Transaction Costs (effective 01 January 2016) from the Gross Current Yield to derive a current yield net of fund expenses.

3. CALCULATION OF 1-YEAR TER

3.1 Background

The CISCA Advertising and Marketing Requirements stipulate that a 1-year TER must be calculated over a period of a financial year. The TER of a fund of funds portfolio requires a TER from the underlying portfolios. As the financial year-ends of the portfolios differ, the TERs of underlying portfolios are misaligned and not up to date. To enable an accurate reflection of the TER of a fund of funds portfolio, an up-to-date TER is required from the underlying portfolios.

3.2 Guideline

Manco's are requested to calculate a 1-year TER quarterly on a rolling 12-month basis which will be immediately available on request. This will provide a fund of funds portfolio with up-to-date information to be able to calculate a TER over a period of one financial year.

4. TEMPORARY SUSPENSION OF TRADING OF PARTICIPATORY INTERESTS IN A COLLECTIVE INVESTMENTS SCHEME PORTFOLIO

FSCA CIS Notice 2 of 2020, published on 8 May 2020, provides for the temporary suspension of trading (creation, issue, sale and repurchase) of participatory interests in a CIS portfolio. The following guidance is intended to assist CIS managers in considering the implementation of operational processes that may be necessary when a decision is taken to suspend trading.

CIS Managers, LISP's and the respective asset managers are encouraged, through active consultation, to always act proactively in managing the liquidity in a CIS portfolio e.g., through the provision of sufficient liquidity inside the portfolio, and monitoring cash-flow projections.

In extreme market conditions, a CIS Manager, may have to honor large redemptions, but due to a lack of liquidity in the capital markets, cannot sell underlying securities to provide the required liquidity in the CIS portfolio. Given the specific circumstances, the CIS Managers should first consider the existing remedies allowed by CIS regulations, including existing borrowing facilities, ring-fencing of assets or to settle large redemption transactions by the delivery of the underlying assets.

Alternatively, in terms of the abovementioned FSCA Notice, a CIS Manager, in consultation with the asset manager and the Trustee, may take a decision to temporarily suspend trading in participatory units of a CIS portfolio.

This Guideline does not propose a standardised approach and any decisions by the CIS Manager should consider fairness across all clients, the impact on platforms, and should be done in consultation with the Trustees and notification to and engagement with the FSCA.

1. **Effective “time-stamp” of the suspension** of transactions in participatory interests:
 - a. At the close-of-business (COB) on the given “suspension” day. All transactions received by both CIS Managers and LISPs up to their respective dealing cut-off times on “suspension day” should be settled. For the CIS Manager such a transaction could be valued at T, whilst the LISP transaction could be valued at T + 1 as the transaction may only be received by the CIS Manager on T + 1.
 - b. No further transactions should be allowed until re-opening, except for circumstances as detailed in 3, 4, 5, 6 and 7.
 - c. The CIS Manager should re-open the suspended portfolio only when there is reasonable certainty that normal trading in the portfolio can resume indefinitely (i.e., suspension of trading cannot be used as a mechanism to manage liquidity on a short-term basis).
2. **Daily pricing and calculation of a NAV** and the processing of accruals, of cash flows, receipt of interest, coupons, and dividend payments into the portfolio, should continue.
3. All **standing instructions** (including debit orders), that include an allocation to the suspended portfolio may, at the discretion of the CIS Manager and in consultation with the LISP (where applicable), continue to be processed at both CIS Managers and LISPs:

- a. For instructions that are split across multiple underlying funds, these may be invested into all other portfolios per client instruction,
- b. Amounts due to the suspended portfolio may be held in “suspense account” pending client engagement and instructions.

4. **Fees and charges:**

While fees and charges will still be accrued, CIS Managers and LISPS should carefully consider if and which payment(s) should continue or whether payments of fees and charges by the portfolio should be suspended until the portfolio is re-opened.

5. **Income distributions:**

CIS Managers may decide to continue with the processing of income distributions, considering the following options:

- to force the reinvestment of distributions, or
- to declare a distribution and the fund goes ex-div, but payment is delayed until liquidity is back to normal.

Alternatively, distributions may be suspended, conceivably up to the fund's year-end date.

6. **Annuity payments:**

In terms of point 4(h) of the FSCA Notice, CIS Managers could continue, in consultation with Trustees and LISPs, to meet standing income demands, including annuity payments.

7. **Small redemptions:**

A CIS Manager may from time to time and considering the circumstances at that point in time and the context of the particular portfolio, agree with the FSCA and Trustees to give preference to the payment of redemptions with low values to assist investors in need or to fulfil contractual obligations such as annuity payments. CIS Managers should however consider TCF principles, and practical implications.

HISTORY OF AMENDMENTS

Effective date	Amendments
October 2017	Guideline starts with: <ul style="list-style-type: none"> • Guideline on transaction cost (TC) methodologies • Scenarios where operations have been brought to a standstill
November 2018	Added: <ul style="list-style-type: none"> • Current yield* for income generating cis portfolios • Calculation of 1-year TER
May 2019	Remove: <ul style="list-style-type: none"> • Guideline on transaction cost (TC) methodologies - moved to be included as Annexure B of the ASISA Standard: Calculation and Disclosure of TER's and Transaction costs
15 July 2020	Added: <ul style="list-style-type: none"> • Temporary suspension of trading of participatory interests of a collective investments scheme
25 October 2022	Review and rewrite of: <ul style="list-style-type: none"> • Scenarios where operations have been brought to a standstill

Responsible Senior Policy Advisor: Johann van Tonder