



ASISA CIS OPERATIONS GUIDELINE

Approved by T & O Board Committee on 15 July 2020

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1. GUIDELINE ON TRANSACTION COST (TC) METHODOLOGIES

1.1 Background

The ASISA Standard on the Calculation and Disclosure of Total Expense Ratios and Transaction Costs (ASISA TER & TC Standard) require the following:

- “4.3 All charges and expenses as prescribed in this Standard are to be included in the TER and TC measures. Where a charge is not available, a reasonable best-estimate must be used and explained in the free text notes.*
- 4.4 A Provider must ensure that all values used in calculations are accurate and complete and that its calculations are accurate. Where any value is not available, a reasonable best-estimate must be used and explained in the free text notes.”*

This Guideline on TC Methodologies is intended to provide guidance to members in respect of the calculation of the TC and reasonable best estimates as required in the ASISA TER & TC Standard.

1.2 General

The TC should be determined according to the following waterfall:

1. Use the Actual TC where it is explicitly available (calculated as per section 9 of the ASISA TER & TC Standard).
2. If the Actual TC is not available but the TC is stipulated in an agreement with the broker/counterparty, use the Actual Transaction Volumes x Agreed Costs per transaction.
3. If the TC cannot be determined as set out in 1 and 2 above, use the Actual Transaction Volumes x Best Estimate Costs per transaction.
4. If the TC cannot be determined as set out in 1 to 3 above, use the Turn Over Ratio x Best Estimate Costs (of buying and selling).

Notes:

- *If the Turn Over Ratio is used, take care as to how it was determined.*
 - *For example, the UCITS Portfolio Turnover Ratio (PTR) definition includes purchases and sales which are consistent with the calculation above.*
 - *Other definitions could be to use the average or maximum of purchases and sales in which case the rate must be multiplied by 2 in order to estimate the costs of both buying and selling.*

1.3 TC for Interest Rate Securities - Brokerage Commission

Option A:

- Only include trades where a broker is used.
- Take the Settlement Amount (Principal + Accrued Income).
- Multiply the absolute value of the buy/sell trade values by the implied Broker Commission Spread as determined by the trading team.
- The broker commission spread could be determined by:
 - polling selected fixed income brokers; or
 - the commission rate is quoted in the yield spread by the broker; or

- the Bond Broker Commission Spread is determined by multiplying a reasonable broker commission spread (on Yield) by a reasonable duration estimate for all bond trades for the period to determine the commission spread on the Bond Price.
- This implied Bond Transaction Expense is implied and may be subject to change as and when any of the following changes:
 - Broker Yield Commission Estimate.
 - Average Bond Duration for trades for the period.
 - A change in interest rates.

Option B:

- Where clients are members of the JSE, use the actual bond exchange fee paid on the trade.
- For all other bond trades where the cost is included in the yield: apply, with guidance from clients, an assumed brokerage of x basis points. However instead of doing a number of calculations, a fixed fee per million on all listed bonds can be used.

For example: Take a number of bonds with maturity dates between 1-25 years and calculate the market value differential between the current yield and the yield including x% commission, in order to estimate the rand value of the transaction cost. Based on the assumption that a certain % of the bonds are long term and the balance is short term, a weighted average fixed fee per R1m nominal is calculated. This fee will be revisited on a frequent basis or when a rate change becomes effective; to ensure that market/yield movements are taken into account – at a minimum this should take place annually.

1.4 TC for Currency (FX) - Brokerage Commission

Option A:

- Only include Buy/Sell trades
- Take the absolute value of the settlement amount in the base currency of the fund and sum them for the applicable period.
- Multiply each of these values by the implied Currency Broker Commission Spread as determined by the Trading Team.
- The Currency Commission Spread is determined by:
 - polling selected currency brokers; or
 - the commission rate is quoted in the currency spread by the broker; or
 - the Currency Broker Commission Spread is determined by multiplying a reasonable broker commission spread by a reasonable estimate for all currency trades for the period to determine the commission spread on the Currency Price.
- This implied Currency Broker Transaction Expense is implied and may be subject to change as and when any of the following changes:
 - Broker Currency Commission Estimate.

Option B:

- Transaction costs on FX trades may not be transparent.
- Best Estimate Costs can be determined:
 - Where actual transaction amounts are available, by calculating the weighted average FX rate for the period in question and comparing to the weighted average WM/Reuters Standard Fixings Spot Rates (using the same transactions).

- Where sufficient transactions are not available to make a decent estimate (or Actual Transaction amounts are not available), by using the cost implied by the WM/Reuters Standard Fixings Spot Rates Bid / Offer spread.
- Use the best estimate costs based on the ZAR Value of the purchase leg multiplied with a fixed percentage that will be confirmed.
 - o Where actual transactions are available – using the spread on the date of such transaction.
 - o Where transactions are not available (as would be the case for an underlying offshore fund) – using the average spread % over the period in question.
- The intention is to apply an agreed upon % to the portfolio currency of the forex trade in order to estimate the transaction costs.

1.5 TC for Derivatives - Brokerage Commission

- Only include Buy/Sell (all long and short trades included) and rebook trades.
- Take the absolute value of the number of contracts bought/sold.
- Multiply each of these values by the implied Derivative Broker Commission Spread as determined by polling the Trading Teams.
- The Derivative Commission Spread is determined by multiplying a reasonable broker commission spread per contract (determined by the Trading teams after polling selected brokers) to determine the broker commission.
- This Derivative Broker Transaction Expense is implied and may be subject to change as and when any of the following changes:
 - Broker Derivative Commission Estimate.

1.6 TC for Offshore Funds

- For funds managed by the Manco, full transaction information is available and will be used to calculate the TC.
- For other funds, request an best estimate from the fund manager.
- Where managers are unable / unwilling to provide such an estimate,
 - Calculate the TC as the Turn Over Ratio of the fund x Best Estimate transaction cost.
 - Best Estimate transaction cost will be estimated for each asset class ie. Listed Equities, Cash, Bonds, Unlisted Equities etc.
 - For Multi-Asset funds, the Best Estimate transaction cost will be determined each quarter by asset weighting the quarter-end asset allocation.
- If none of the above is available, the Turn Over Ratio (and/or quarter-end asset allocation) will be estimated using whatever information is available on such a fund or reasonable proxy.

2. SCENARIOS WHERE OPERATIONS HAVE BEEN BROUGHT TO A STANDSTILL

2.1 Background

The concern is the risk introduced and the impact on the operations of participants in the CIS industry, when an asset management back office / administrator / platform provider experiences a scenario that brings their operations to a standstill for an extended period.

2.2 Guideline

In a scenario where the operations of an asset management back office, administrator, platform provider has been brought to a standstill, the following will serve as guidance:

1. A Manco / LISP can decide that:
 - NAV prices will not be calculated, or
 - NAV prices will be calculated, using the last available price.
2. A Manco / LISP can decide to:
 - Hold back on the processing of investments and dis-investments, or
 - Proceed with the processing of all investments and dis-investments.
3. Subject to the NAV Calculation and Pricing Regulation / Guideline, clients should be put in the same position that they would have been in, if not for the event.
4. Industry communication of the event:
 - The affected party informs the Regulator, ASISA, Clients and any other third party that they engage with on a daily basis.
 - ASISA informs ASISA members – ASISA communication is in addition to the affected party and will only contain the message content that has been received, including contact detail.



3. CURRENT YIELD* FOR INCOME GENERATING CIS PORTFOLIOS

3.1 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.

3.2 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.

2.1 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 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 annualised and divided by the instrument clean market value in order 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 in order 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.

3.3 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.

4. CALCULATION OF 1-YEAR TER

4.1 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.

4.2 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.

5. 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 act proactively at all times 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
15 July 2020	(Approved by T&O Board Committee)

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