ASISA STANDARD:

NET ASSET VALUE CALCULATION FOR CIS PORTFOLIOS – PRINCIPLES AND PRACTICES

Effective date: This Standard is effective from 28 October 2015

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1. **PURPOSE OF THIS STANDARD**

1.1 This Standard sets out principles, processes and procedures that must be adopted by fund managers and administrators in relation to portfolios comprising Collective Investment Schemes, registered in terms of the Collective Investment Schemes Control Act, 2002.

1.2 The purpose of this Standard is to:

1.2.1 Establish standards for fair and consistent disclosure;

1.2.2 Specify the principles to be adopted in the calculation of NAV's and NAV prices of CIS portfolios;

1.2.3 Provide guidance in interpretation and application of the principles;

1.2.4 Standardise practices, procedures and terminology used for calculating NAV's and NAV prices; and

1.2.5 Align domestic standards and procedures with international practice.

1.3 **Applicability**

This Standard applies to portfolios comprising Collective Investment Schemes registered in terms of the Collective Investment Schemes Control Act, 2002.

1.4 **Replacement**

This Standard replaces the following legacy standards:

(a) The ACI Standard on Pricing and Valuation;

(b) The ACI Guideline Adherence to the Requirements of Section 24J of The Income Tax Act; and

(c) The ACI Guideline on Decimal places in the Collective Investment Industry.

(d) ASISA Standard on NAV Price Calculation for CIS 28 May 2014.

2. GLOSSARY OF TERMS

Term	Definition
Accounting period	Means the period beginning with the last ex-dividend date and ending on the day immediately prior to the following ex-dividend date.
Administrator	The party responsible for fund accounting for the portfolio and/or maintenance of the investor ledger as implied by the context whether such party is part of the Managers business or an independent service provider.
CIS	A Collective Investment Scheme constituted under a trust deed in terms of The Collective Investment Schemes Control Act (CISCA).
CISCA	The Collective Investment Schemes Control Act.
Clean price	The total market value of all net assets held in a unit portfolio on a specific day less the net income, divided by a number of units in issue on that same day (also known as the Capital Price).
Creation price	See NAV price.
Exchange	An exchange licensed under the Stock Exchanges Control Act, 1985, the Financial Markets Act, 2012, or an exchange outside the Republic recognised by the Registrar of Collective Investment Schemes for the purposes of the Act.
Ex-dividend date	The first business day following the vesting of an income distribution to investors.
Future pricing	NAV price is calculated and applied to transactions processed on the same day i.e. all transactions are done at the NAV price determined by asset values at the close of the financial market on the same day. Future pricing is the recommended ASISA approach.
Historic pricing	NAV prices are calculated based on that day's closing prices and then applied to all transactions that occur the following day, i.e. all transactions are done at the NAV price determined by asset values at the close of the financial market the previous day.
Income	All income for distribution received by or accrued to the unit portfolio, during the accounting period together with any amounts carried forward from any previous accounting period as not having been distributed.
Manager	The party authorised in terms of CISCA to manage the Collective Investment Schemes.

Market value	The fair valuation of all securities and other assets in a portfolio.
NAV	Net Asset Value: the fair market value of all assets less the fair value of the liabilities in the portfolio.
NAV price	Refer to the formula in part 7 of this Standard.
Payment in lieu of income accrual	Means the amount which the Manager must pay into the income account of a particular portfolio on the creation of new participatory interests to afford such participatory interests equal participation in the relative income which has accrued (including payments received in lieu of income accruals) from the last ex dividend date to the date on which the participatory interests are created. Such amount must be calculated by dividing the total number of participatory interests in issue of a portfolio at the time at which the calculation is made into the total amount then standing to the credit of the relevant income account and by multiplying the quotient by the number of new participatory interests created at the time at which the calculation is made.
SARS	South African Revenue Service.
Shari'ah compliant portfolios	Portfolios which are identified as such and where the investment mandate specifies the portfolio must be managed in a way which is consistent with Shari'ah principles.
Service charge	The charge paid to the Manager for the management of the portfolio, can be fixed or variable.
TER	The total costs associated with managing and operating the portfolio or share class in a portfolio divided by the total assets expressed as a percentage of the NAV of the portfolio or portfolio class.
Trust deed	The deed of trust under which a CIS is constituted.
VAT on fees	Calculated by applying the official VAT rate as specified by SARS to the respective fee.
Unit	The base participatory interest acquired by an investor in a portfolio.
Unit class	The total of units in a portfolio which are subject to common fee terms (also known as Share Class).
Valuation point	The time of day at which the portfolio NAV is calculated.

3. PRINCIPLES

3.1 Accounting

3.1.1 All pricing processes and procedures are expected to be aligned to generally accepted accounting practices.

3.1.2 Portfolio accounting and NAV pricing must be on an accrual basis.

3.2 Responsibility

3.2.1 The Manager has sole responsibility for ensuring that portfolio pricing is correct and that the process of portfolio pricing adheres to the following principles:

(a) Fairness – processes should be free from bias and/or discrimination;

(b) Consistency – processes should be applied consistently over an accounting period;

(c) Transparency – processes must be clearly documented and data readily available for review in sufficient detail to enable detailed analysis; and

(d) Accuracy – processes should be designed and implemented such that the inherent accuracy thereof can be demonstrated.

3.3 Deviation from the Standard

3.3.1 Managers are responsible for ensuring compliance with this Standard. The contracting of administration to an independent service provider shall not serve to remove or diminish this responsibility.

3.3.2 This Standard is intended as a minimum standard and Managers may adopt higher standards if they so choose.

3.3.3 It is recognised that this Standard cannot contemplate all eventualities and that circumstances might arise where application of the processes and procedures as outlined in this Standard might not result in fair and equitable treatment of investors. In such cases the Manager may implement alternative solutions which are consistent with the broader principles of this Standard.

3.3.4 The Standard does not necessarily take into account changes to the legal environment or scheme specific matters. Where any Act, Deed, written instruction or authorisation by the Registrar of Collective Investments is in conflict with the provisions of this Standard, these take precedence over the Standard.

3.4 Standard structure

3.4.1 The net asset value and unit pricing of a portfolio is determined by:

(a) The recording and valuation of assets within the portfolio;

(b) The recording of income received and accrued to the portfolio;

(c) The recording of expenses paid and owing by the portfolio;

(d) The unitisation and pricing of the portfolio; and

(e) The computation and processing of income distributions from the portfolio.

3.4.2 This Standard deals with each component in turn:

(a) Stating the principles applicable to the component;

(b) Providing a detailed overview of the application of the principle; and

(c) Where necessary, including a worked example.

3.4.3 In addition, the standard sets out:

(a) The methodologies applicable for multiple share class portfolios; and

(b) How to deal with portfolio valuation errors.

4. RECORDING OF ASSETS (ASSET VALUATION)

4.1 Principles of valuation

The overriding principle is that all assets should be valued at fair market value. The notable exception is for money market funds, where assets must be valued at amortised cost.

4.2 Application in practice

4.2.1 Security prices should be retrieved on a consistent basis and valuation point on each valuation day in a manner which is consistent with the deed. Wherever possible and practical prices should be validated for reasonability through actions such as:

(i) Comparing multiple sources; and

(ii) Reviewing the price against the previously retrieved price.

4.2.2 Where prices at the most recent valuation point are not available for any reason the most recent available price may be used subject to verification that this is fair and reasonable in the circumstances. In the event that a current price is not available due to suspension in the trading of a security the Manager must determine a fair and reasonable price taking into account all available information and the potential effect of such price on the overall value of the portfolio.

4.2.3 Where no market mechanism (such as the assistance of a clearing house/exchange) exists to aid the valuation process, such securities must be valued daily based on a generally recognised methodology and by a person acceptable to the trustee.

(a) This method must be clearly explained in the accounting policy. Methods that could be considered are:

(i) Discounted cash flow techniques which involve applying a market-related discount rate for similar instruments to the Manager's best estimate of future cash flows;

(ii) The Manager must continuously assess the applicability of a chosen methodology to ensure that it remains fair and reasonable in the prevailing circumstances.

(iii) Pricing models that consider, among other factors, contractual and market prices, correlation, time value of money, credit risk, yield curve volatility factors and prepayment rates of the underlying positions.

(b) Where fair value cannot be reliably determined instruments may be reflected at cost provided that this is fair and reasonable in the prevailing circumstances. All transaction costs directly attributable to the acquisition of such securities should be included in such cost.

4.2.4 Assets purchased at a discount / premium to the nominal value should be accounted for on a yield to maturity basis in accordance Section 24(J) of the Income Tax Act.

4.2.5 Assets in a currency other than that of the portfolio base currency must be converted at appropriate exchange rate and the conversion rate should also be calculated at a time that is consistent with the portfolio valuation point on each valuation day.

4.2.6 Brokerage, securities transfer tax, initial charges on the acquisition of any security or participatory interest and any other charges directly related to the acquisition of a security must be treated as a capital expense.

5. RECORDING OF INCOME

5.1 Principle

Income should be accrued on a basis consistent with the valuation frequency of the portfolio and in a manner which accurately reflects the source and nature of the income.

5.2 Application in practice

5.2.1 Income should be clearly distinguishable as either domestic or foreign.

5.2.2 Income should be clearly distinguishable as falling into one of the following categories:

(a) Dividends, including separately identifying any dividend withholding tax amounts;

(b) Interest, including separately identifying any interest withholding tax amounts; and

(c) Other, including separately identifying any withholding tax amounts.

5.2.3 Other income is limited to:

(a) Foreign exchange gains or losses on income receivable or expenses payable;

(b) Rental income;

(c) Scrip lending fees;

(d) Manufactured dividends; and

(e) Any other income as determined by SARS.

5.3 Section 24J of the Income tax Act

5.3.1 All premiums and discounts on the acquisition of securities must be recognised as income in nature in accordance with section 24J of the Income Tax Act (1962).

(a) The calculation and processing of section 24J interest should align at least to the distribution frequency of the portfolio.

(b) Premiums and discounts on acquisition of securities must be distributed to unit-holders.

6. RECORDING OF EXPENSES

6.1 Principle

Expenses should be accrued on a basis consistent with the valuation frequency of the portfolio. Fees which can appropriately be regarded as immaterial to the value of the portfolio may be recorded on a receipted basis, e.g. bank charges, but such exceptions should be agreed with the Trustees in advance.

6.2 Application in practice

6.2.1 All expenses must be accounted for on a tax-inclusive basis.

6.2.2 The fund expenses (as defined in CISCA) should be calculated, accrued and paid on the basis set out in the deed and fund supplemental deeds.

6.2.3 In the case of Shari'ah compliant portfolios non-permissible income must be removed from the portfolio through an appropriate expense line item clearly identifying the nature of the expense.

7. CALCULATION OF THE PORTFOLIO NAV AND NAV PRICE

7.1 For the purposes of describing the process of portfolio valuation it is necessary to differentiate between:

7.1.1 Funds other than money market funds pricing at constant NAV (CNAV);

7.1.2 Multiple class portfolios; and

7.1.3 Money market funds pricing at constant NAV (CNAV).

7.2 Funds other than money market funds pricing at constant NAV (CNAV)

7.2.1 The portfolio NAV is determined by the following formula:

	The market value of all assets in the portfolio	Section 4
Add	The income received and receivable to the portfolio	Section 5
Less	The expenses paid and payable from the portfolio	Section 6
Divided by	The units in issue for the portfolio	

7.2.2 The pricing process results in a:

(a) Clean price (capital value);

(b) Income price; and

(c) NAV price.

7.3 Multiple class portfolios

7.3.1 Funds with multiple share classes may be valued using either of the following methodologies:

(a) The units in issue methodology where non-class specific transactions and values are allocated to an individual class per the following ratio:

[T Class units in issue] / [T Fund units in issue]

Caveats:

- New classes are only created at the start of a new distribution period
- The formula does not work if you have to capitalise negative income

(b) The NAV methodology where non-class specific transactions and values are allocated to an individual class per the following ratio:

([T-1 Class NAV] + [T Class NAV Flows]) / ([T-1 Fund NAV] + [T Fund NAV Flows])

(c) The mixed NAV/Capital methodology where non-class specific transactions and values are allocated to an individual class per the following ratio:

([T-1 Class NAV] + [T Class Capital Flows]) / ([T-1 Fund NAV] + [T Fund Capital Flows])

(d) The Capital methodology where non-class specific transactions and values are allocated to an individual class per the following ratio:

([T-1 Class Capital] + [T Class Capital Flows]) / ([T-1 Fund Capital] + [T Fund Capital Flows])

(e) A Manager may switch from one methodology to another, however this switch should be agreed with the Trustee and preferably coincide with the beginning of a new accounting period.

7.3.2 The principles associated with multi-class funds are:

(a) The sum of all classes must always be equal to the aggregate portfolio;

(b) Each class must be ring fenced so that no event particular to a class may affect or contaminate another;

(c) Unit movement in one class must not impact the absolute NAV price of any of the other classes of participatory interests of that portfolio;

(d) All transactions in a class must be applied to both the capital and revenue portions of the NAV price in the same proportions as those capital and revenue portions exist in the NAV price. By implication:

(i) In the event that all participatory interests in a class are redeemed all accruals and provisions attributable to that class must be brought to zero.

(ii) Subsequent to this final transaction, the books of account for this class should not reflect any amount with respect to income in lieu of, or a reserve carried for the capitalisation of shortfall in the revenue account.

(e) A new class may be launched at any time in accordance with Guidance Note 11 dated 18 May 2015.

7.3.3 It is the responsibility of the Manager to ensure that regardless of the pricing method (NAV, Capital or units in issue) employed pricing is undertaken in such a manner as to afford clients equal rights and treatment regardless of the classes their participatory interest pertain to.

7.3.4 The pricing may not result in cross subsidization of fees across classes.

7.4 **Money market funds pricing at constant NAV (CNAV)**

7.4.1 The pricing of money market funds pricing at constant NAV must be consistent with the pricing of other funds with the following exceptions:

(a) The daily unit NAV price of a money market fund is fixed at 100 cents – the NAV price consists of a capital portion only.

(b) The net income per unit which is calculated on a simple interest basis is distributed daily within the fund accounts and investor ledger, though actually paid to investors monthly.

(c) Assets in the fund are valued on the basis of amortised cost + daily accrued interest income.

(d) Any premium or discount on the purchase of an asset must be amortised and recognised in the daily net income calculation.

(e) Any capital loss or gain resulting from the sale of an underlying asset is to be accounted for in the income account of the portfolio on the day it occurs.

(f) No smoothing of any form should occur within the portfolio.

(g) A money market portfolio which is priced at a variable NAV must adhere to the provisions in 7.2.

7.4.2 Calculation of the money market yield:

(a) The objective of the money market portfolio yield is to indicate to investors a compounded annual return and is not used for income distribution purposes.

(b) The yield must be calculated as follows (rounding convention in brackets):

(i) The sum of the daily accruals for distribution over the previous seven days, in cents per unit, is divided by seven and multiplied by 365 (366 days for leap years) to obtain the <u>average annual nominal yield</u> (not less than 6);

(ii) The average annual nominal yield is divided by the number of distribution payment periods to obtain the <u>periodic effective rate</u> (not less than 6);

(iii) Divide the periodic effective rate by 100, add one and raise to the power of the number of income distributions per year, subtract 1 and multiply by 100 to obtain the <u>annual effective yield</u> (not less than 2).

8. CALCULATING AND PROCESSING PORTFOLIO DISTRIBUTIONS

8.1 Principle

The overriding principle is that all income received and accrued to the portfolio should be distributed to unit holders so that it is taxed in the hands of the investor and that the nature of the income is preserved in the process.

In the case of money market funds all realised gains and losses must be included in the calculation of the amount available for distribution.

8.2 Application of the principles

8.2.1 Accounting for negative net income (where charges against income exceed income):

(a) The negative income amount may be deducted from capital if, in the reasonable opinion of the Manager, the shortfall in income is likely to persist.

(b) In making such a determination the mandate and investment objectives of the portfolio have to be taken into account. If a portfolio has the aim of revenue generation and/or dividend growth, the Manager would reasonably be able to expect that any current shortfall is temporary and hence it should not be paid from capital.

8.2.2 The distribution data at a portfolio class level must contain the following detail:

(a) Date of declaration and

(b) Distribution amount (in cents per unit) broken down into the different components as required in terms of the SARS business requirements specifications.

8.2.3 Portfolio expenses & payments in lieu of income accruals must be apportioned across the components in 8.2.2 (b) in the ratio in which the components have been accrued.

8.2.4 All distributions data must be published by 14h00 on the first business day post the distribution point of the fund.

9. PUBLISHING OF PORTFOLIO DATA

9.1 NAV Prices

9.1.1 Rounding convention

(a) The NAV price distributed to the market and used for all transactions in the respective administration systems must be truncated (rounded down) to not less than 2 decimal places in cents per unit.

(b) Units must be rounded to not less than 2 decimal places in all systems and communications with industry participants.

9.1.2 Publication of NAV prices in the media

(a) The NAV price of the portfolio which is supplied to the media for publication must be that of the retail unit class with the highest charges and annual service fee through which a new investor would be available to invest directly with the manager into that portfolio (i.e. not via a third party, life license or linked investment service provider).

(b) All fee classes must be identified as such.

(c) A class or portfolio whose NAV price is not published in the press should not be included in comparative performance tables or be eligible for any performance awards.

9.1.3 Publication of NAV prices to the ASISA website

(a) The NAV prices of all classes of all portfolios of a Manager must be published on the ASISA website. NAV price data must be supplied daily to the preferred Statistics Service Provider for data collation as per 9.1.4. The Statistics Service Provider will supply the data to ASISA.

(b) Unit portfolios which are designed for use by or via another product structure (e.g. third party, life license or linked investment service provider) and permit the charging of initial, administration and annual fees over and above those levied at the CIS level must be identified as such and must carry the following footnote:

"Investors in this fund may be liable for an initial fee and/or annual service fee levied by the third party administrator that is not reflected in the fund initial charge or NAV calculation."

(c) Portfolios or classes not available to the public must be identified as such and must carry the following footnote:

"This fund has been established for a specific investor and or group of investors and may not be available for direct investment by the public."

9.1.4 The daily NAV price information supplied to the Statistics Service Provider to be published on the ASISA website must contain the following columns:

(a) Fund name (including the class name);

(b) Maximum Initial Fee expressed as % of NAV;

(c) Date of the NAV price; and

(d) NAV price of latest trading day in cents per unit.

9.2 Distributions

9.2.1 Rounding convention

(a) For non-money market portfolios, the distribution rate should be rounded down to not less than 2 decimal places on the cents per unit value (R0.0000), any surplus to be carried over to the next distribution period at portfolio level.

(b) For money market portfolios, the daily distribution cents per unit should be truncated to 6 decimal places, with allocation of distributions following the rules for a normal distribution.

(c) The distribution should be allocated within the investor ledger to 2 decimal places (rounded down) of the Rand value (R0.00) and any surplus to be credited to the income account of the portfolio for distribution in the next distribution period.

9.2.2 Publication of distribution data

(a) All distribution data in cents per unit must be supplied to the Statistics Service Provider by no later than 14h00 on the ex-Dividend date as per 9.2.3. Detail on the declared distribution of all classes of all portfolios of a Manager will be published on the ASISA website.

(b) All declaration data must be supplied to the preferred Statistics Service Provider for data collation. The Statistics Service Provider will supply the data to ASISA.

9.2.3 The distribution data provided to the Statistics Service Provider for publication on the ASISA member website must contain the following detail:

(a) Date of declaration and

(b) Distribution amount (in cents per unit) broken down into the different components as required for tax compliance and

(c) TER.

9.3 Yields

The publication of yields is limited to:

(a) money market yield as per paragraph 7.4.2 and

(b) any other yield as calculated on a historic basis.

The yields per fund class should be calculated monthly based on the actual distributions declared in the last 12 months for the class divided by the average daily NAV price for the fund class over the same period. For newly launched classes which haven't been in existence for 12 months but where the fund has been in existence for 12 months, managers can calculate a yield based on other existing classes adjusting for the fee differential. For new launched fund which haven't been in existence for 12 months, managers can 1) not calculate a yield at all or 2) can calculate the yield after 6 months and annualize the distributions to have a comparable figure. Note that the minimum published yield should always be 0.00% - so if a fund didn't declare any income distributions, the need not show a negative yield, they can just show a yield of 0.00% or n/a.

10. DEALING WITH ERRORS

10.1 Principles

10.1.1 No investor should be penalised for a valuation or administrative error.

10.1.2 All investors that have been penalised whether redeeming, entering or remaining in the fund, as a result of a valuation or administrative error should be treated equitably.

10.1.3 The preceding points notwithstanding the Manager may apply a materiality calculation to the error to determine whether or not to take action to resolve the error.

10.1.4 No investor has the right to be unduly enriched at the expense of another investor. Where an investor has been unduly enriched at the expense of the Manager or third party administrator, the Manager or third party administrator may take steps to recover undue benefits from the investors at their discretion and by agreement between Manager and third party administrator.

10.1.5 The Manager in all cases acts as principal in its relation to the portfolio and remains accountable for the affairs of the scheme.

10.2 The sources of errors

10.2.1 Managers must differentiate between isolated instances of technical / clerical valuation errors and errors resulting from weaknesses in internal controls which cause repeated/ continuous errors of the same nature.

10.2.2 Errors which require resolution include but are not limited to:

(a) Portfolio and security valuation errors;

(b) Transaction processing errors;

(c) Calculation errors; and

(d) Income classification errors in distributions.

10.3 Determining materiality

10.3.1 Although there is no uniform, definitive test for determining whether a pricing error is material or not, it is generally accepted that a pricing error is material if a reasonable investor would consider it important.

10.3.2 Error rectification should be undertaken so as to return affected investors to the position they would have been in, had the error not occurred. The sum of all effects should be used in considering materiality.

10.3.3 The suggested maximum tolerance for the materiality of an error is 0,5% based on the NAV price unless specified otherwise. A CIS Manager may apply stricter tolerances for certain portfolio types if deemed appropriate.

10.3.4 The above percentage notwithstanding any error in an amount, in total, below R50.00 per investor may be considered as immaterial.

10.3.5 The above guidelines do not vary the contractual or other legal rights of investors which might be legally enforceable.

10.3.6 The following process should be followed for resolving errors once detected:

(a) Determine the period between the first occurrence of the error and its identification.

(b) Identify the cause of the error.

(c) Determine the extent of the error and the effect on daily NAV prices, the number and value of purchase and repurchase transactions during the period and\or any income distributed.

(d) Determine the corrective action required to rectify the error.

(e) Identify all transactions where investors have been prejudiced and/or benefited.

(f) Determine materiality of the error and identify the cases where correction is required.

(g) If action is required at investor level determine whether the portfolio should be compensated for undue benefits received by affected investors.

(h) Any corrective action should be agreed between the Manager, administrator, and where applicable, the trustee.

(i) Implementation of the corrective action should avoid any further delay and any further impact on the portfolio and investors.

(j) A Manager must ensure that relevant staff are able to deal with any queries regarding the error. The nature and extent of the error should be considered in terms of the need to communicate with investors or the press.

(k) Once the error has been corrected, the Manager must analyse the causes and determine if the error may be regarded as a “once off” event or if systems or procedural deficiencies need to be addressed to prevent any recurrence of the error.

10.4 No correction may be required if:

10.4.1 There were no transactions processed during the period affected by the error.

10.4.2 The error was not material.

10.4.3 No investor was prejudiced by the error.

10.5 Where a LISP receives payments or additional units as a result of valuation or administration errors from a CIS Manager and considering that it holds units on behalf of investors in a bulk account, the LISP needs to embark on a correction exercise similar to the one described above, to compensate their clients for the error.