

ASISA CIS OPERATIONS GUIDELINE

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1. NATURE OF THE GUIDELINE

1.1. This CIS Operations Guideline ("**Guideline**") is being shared with ASISA members and the public at large for their consideration and voluntary implementation and is non-binding on ASISA members.

2. SCENARIOS WHERE OPERATIONS HAVE BEEN BROUGHT TO A STANDSTILL

2.1. Background

2.1.1. The aim of this Guideline is to provide guidance to ASISA members in scenarios when, whatever the cause or the duration:

2.1.1.1. a net asset value ("**NAV**") for a collective investment scheme ("**CIS**") portfolio cannot reasonably be calculated; and/or

2.1.1.2. purchases and/or repurchases of participatory interests in a CIS portfolio cannot reasonably be processed,

(collectively referred to as "**Scenarios**").

2.1.2. Such Scenarios can 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.

2.2. Principles

2.2.1. When faced with a Scenario, ASISA members should have regard to:

2.2.1.1. and make decisions based on the specific circumstances of their individual businesses;

- 2.2.1.2. treating clients fairly principles;
- 2.2.1.3. the impact on liquidity in the market;
- 2.2.1.4. limiting disruption in the industry as far as possible;
- 2.2.1.5. applicable regulatory requirements.

2.3. Considerations to guide communication

- 2.3.1. It is recommended that the ASISA member affected by the Scenario ("**Affected Member**") informs the Regulator, ASISA, clients and any other third parties that may be affected as soon as it becomes evident that a Scenario Incident is about to or has occurred. The Affected member should also consider providing appropriate updates on the situation. The notification should identify a contact person at the affected ASISA member.
- 2.3.2. The Affected ASISA member should request their clients and affected third parties to consider notifying other affected parties that may not have a direct relation to the Affected ASISA member.
- 2.3.3. Upon receipt of the communication from the Affected member, ASISA will inform other ASISA members that may be affected.
- 2.3.4. On a case-by-case basis and depending on feedback from and requests by affected members, ASISA may facilitate a meeting between the Affected Member and such other affected members for the purpose of discussing the matter at hand.

2.4. Considerations to guide the Calculation of NAVs

- 2.4.1. In respect of the calculation of NAVs, CIS managers/platform providers may decide to:
 - 2.4.1.1. 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
 - 2.4.1.2. 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

2.4.1.3. suspend pricing until up-to-date prices become available.

2.5. Considerations to guide the processing of purchases and/or repurchases

2.5.1. As regards the processing of purchases and/or repurchases, CIS managers/platform providers may consider:

2.5.1.1. the circumstances of the case;

2.5.1.2. the size of the transactions;

2.5.1.3. scenarios where arbitrage opportunities may arise which may negatively affect existing investors;

2.5.1.4. the impact on monthly annuity payments and salary runs for advisors;

2.5.1.5. potential liability.

2.5.2. The following are examples of actions that may be taken by CIS managers/platform providers (this is not intended to be an exhaustive list):

2.5.2.1. Delay the processing of purchases and/or repurchases.

2.5.2.2. 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.

2.5.2.3. 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.

3. CURRENT YIELD* FOR INCOME GENERATING CIS PORTFOLIOS

3.1. Background

3.1.1. There is currently no obligation for CIS managers to provide current yields for income generating CIS portfolios and this Guideline does 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 this Guideline.

3.1.2. 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. Each CIS manager should consider for each fund whether additional disclosures need to be made in particular cases.

3.2. Calculation of the Gross Yield

3.2.1. It is recommended that all quoted current yield figures be expressed in nominal terms as a percentage and rounded to the nearest two decimal places.

3.2.2. It is recommended that, in respect of an income generating CIS portfolio holding simple instruments, the yield be calculated as follows:

3.2.2.1. **Instrument Current Yield** = Instrument Coupon Rate multiplied by the Instrument Nominal Value divided by the Instrument Clean Market Value.

3.2.2.2. **Instrument Weighted Current Yield** = Instrument Current Yield multiplied by the Instrument Clean Market Value divided by the Total Portfolio Clean Market Value.

3.2.2.3. **Portfolio Current Yield** = Sum of Instrument Weighted Current Yields as calculated in paragraph 3.2.2.2 above.

The following example may be considered:

| Instrument Description | A ↓ | B ↓ | C ↓ | Instrument Accrued Interest | Instrument Total Market Value | E ↓ | 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 | <u>50,039,808.00</u> | | <u>52,677,397.82</u> | <u>971,139.26</u> | <u>53,648,537.08</u> | | | <u>9.38</u> |

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D

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

3.2.3. Where an income generating CIS portfolio holds more complex instruments the following additional calculations are recommended:

3.2.3.1. 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 annualized and divided by the instrument clean market value to calculate the instrument running yield.

3.2.3.2. 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 may be determined based on similar entities or by using the pre-listing statement.

3.2.3.3. Where the income generating CIS portfolio holds foreign instruments, the current Forex Rate be used to convert these instruments to base currency to calculate the instrument current yield.

3.2.3.4. 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

3.3.1. It is recommended that fund expenses be deducted from the gross current yield calculated in paragraph 3.2 above prior to publication in fund fact sheets or any other marketing material.

3.3.2. Where a fund has multiple share classes a different net yield for each of those classes should be calculated and quoted.

3.3.2.1. 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.

3.3.2.2. Where a 1-year TER is not recalculated quarterly, all fund expenses as defined in section 6.1 of the **ASISA Standard: Calculation and Disclosure of Total Expense Ratios and Transaction Costs** should be deducted 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

It is recommended that CIS managers calculate a 1-year TER quarterly on a rolling 12-month basis which should 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

- 5.1. FSCA CIS Notice 2 of 2020, published on 8 May 2020 ("**FSCA Notice**"), 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.
- 5.2. CIS managers, LSPs and the respective asset managers are encouraged, through active consultation with affected parties, 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.
 - 5.2.1. In extreme market conditions, a CIS manager, may have to honour 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 manager 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.
 - 5.2.2. 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.
- 5.3. This Guideline does not propose a standardised approach and any decisions by the CIS manager should take into account fairness across all clients, the impact on platforms, and should be taken in consultation with the trustees and notification to and engagement with the FSCA.
- 5.4. The following high-level approach is recommended:
 - 5.4.1. **Effective "time-stamp" of the suspension** of transactions in participatory interests:
 - 5.4.1.1. At the close-of-business on the given "suspension" day, all transactions received by both CIS managers and LSPs up to their respective dealing cut-off times

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.

- 5.4.1.2. No further transactions should be allowed until re-opening, except for circumstances as detailed in paragraphs 5.4.3 to 5.4.7 below.
- 5.4.1.3. 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).
- 5.4.2. **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.
- 5.4.3. 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:
 - 5.4.3.1. For instructions that are split across multiple underlying funds, these may be invested into all other portfolios per client instruction.
 - 5.4.3.2. Amounts due to the suspended portfolio may be held in “suspense account” pending client engagement and instructions.
- 5.4.4. **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.
- 5.4.5. **Income distributions:** CIS managers may decide to continue with the processing of income distributions, considering the following options:
 - 5.4.5.1. to force the reinvestment of distributions, or
 - 5.4.5.2. 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.

- 5.4.6. **Annuity payments:** In terms of point 4(h) of the FSCA Notice, CIS managers could continue, in consultation with trustees and LSPs, to meet standing income demands, including annuity payments.
- 5.4.7. **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 the 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.

DOCUMENT HISTORY

| Date | Publication / amendments |
|-----------------|--|
| | Publication |
| 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 |
| 18 July 2024 | Competition Law review |

RESPONSIBLE COMMITTEES AND SPA

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|--|--|
| Responsible Board Committee | Technical and Operations Board Committee |
| Responsible Standing Committee | CIS Operations Standing Committee |
| Responsible Senior Policy Advisor | ASISA Point Person to the Technical and Operations Board Committee |