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MALAYSIAN ASSOCIATION OF ASSET MANAGERS

Proposed Guidelines: Compliance Guidelines for Fund
Managers (ed_v01, iter_v03b_26jan2004)

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Proposed Guidelines: Compliance Guidelines for Fund Managers (ed_v01, iter_v03b_26jan2004)

Invitation to Comment

Action Requested

- 1 All Licensee Fund Managers are invited to comment on the Text of Proposed Guidelines below.
- 2 MAAM plans to expose all comments at its website (www.MAAM.org.my) so that each comment maker is aware of other comments made. We believe that this exposure enhances the transparency of this comment process.

If your firm prefers to remain anonymous for website exposure, please state your preference when you deliver your comment.

- 3 MAAM's role is to collect and deliver comments received to the Joint Securities Commission – MAAM Working Group.

If you prefer your comments to be attributed anonymously when we deliver your comments to the Joint Securities Commission – MAAM Working Group, please state your preference accordingly.

- 4 If your firm is unable to deliver comments by 5 February 2004, please advise MAAM of your probable date of delivery.
- 5 If your firm decides that these Guidelines are “good as is” please do state accordingly.

TimeLine

5 February 2004	Last date to receive comments
	The 19 January 2004 letter from the Joint Working

	Group requires that your comments be delivered by 5 February 2004.
20 February 2004	MAAM reports to the Joint Working Group on comments received.
March 2004	Joint Working Group presentation to the industry, reporting on comments received and on edits to the Guidelines.

Text of Proposed Guidelines

Title

- 1 The title of these Guidelines shall be "Compliance Guidelines for Fund Managers".

Required Policies and Procedures

- 1 The nature and extent of the policies and procedures which a firm is required to maintain will depend upon a variety of factors including:
 - 1.1 the nature, scale and complexity of its business;
 - 1.2 the diversity of its operations, including geographical diversity;
 - 1.3 the volume and size of its transactions; and
 - 1.4 the degree of risk associated with each area of its operation.
- 2 In the event the Fund Manager undertakes the management of proprietary portfolios, account or transactions, then it must design, establish and maintain adequate policies and procedures to ensure that there is no conflict of interest between managing the proprietary account and the clients' account.

- 3 Policies and procedures of Fund Managers, to the extent relevant, should, at a minimum, address:

Portfolio management

Prohibition on Insider Dealing

- 3.1 A Fund Manager should not effect or cause to be effected any transaction based on material non-public price sensitive information or when otherwise prohibited from dealing by statutory restrictions on insider dealing, and should have procedures in place to ensure that employees are aware of such restrictions.

Order Allocation

- 3.2 A Fund Manager should:
- i) Ensure that all client orders are allocated fairly;
 - ii) Make a record of the intended basis of allocation before a transaction is effected;
 - iii) Ensure that an executed transaction is allocated promptly in accordance with the stated intention, except where the revised allocation does not disadvantage a client and the reasons for the re-allocation are clearly documented.

Suitability of Investment Policy

- 3.3 *The Fund Manager should take all reasonable steps beforehand to establish the client's*
- i) Financial position,
 - ii) Investment experience,
 - iii) Investment return requirements,
 - iv) Risk tolerance,
 - v) Needs for liquidity,

- vi) Investment horizon,
- vii) Legal and regulatory requirements
- viii) Other unique circumstances, if any

Prior to making any investment recommendation or taking investment action and must reassess and update this information regularly.

3.4 No investment policy should be implemented unless the risks involved have been explained and disclosed to the client and there is reasonable basis to believe that the client has such knowledge and experience in financial matters that the client may reasonably be expected to be capable of evaluating the risk of the recommended investment policy.

3.5 Fund Manager must have

- i) reasonable and adequate basis for preparing the investment policy statement
- ii) The client's approval of the investment policy statement prior to implementation

3.6 A Fund Manager should ensure that transactions carried out on behalf of a client are in accordance with the portfolio's stated objectives, investment restrictions and guidelines.

3.7 The Fund Manager must

- i) Exercise diligence and thoroughness in making investment decisions or in taking investment action
- ii) Have a reasonable and adequate basis, for such recommendation and actions
- iii) Make reasonable and diligent efforts to avoid any material misrepresentation in any investment recommendation
- iv) Maintain appropriate records to support the reasonableness of such recommendation or actions

Priority of Transactions

- 3.8 The Fund Manager must disclose when requested, to its clients, its policies on allocating trades among client orders and among client and house orders/or related party accounts.
- 3.9 The Fund Manager must disclose in its periodical reports to its clients, if it conducts proprietary trading and/or management of related party funds.
- 3.10 Any transaction or investment carried out by, or, on behalf of the client, should be executed on terms which are the best available for the client and which are no less favourable to the client than arms length transaction between independent parties.
- 3.11 When dealing for a proprietary account, the Fund Manager must give priority to satisfying a client order. Where a client order has been delivered close to the time the proprietary order is delivered, and if all orders cannot be filled, the client's order must take priority in any subsequent allocation before any part of the proprietary order can be filled

Portfolio Turnover

- 3.12 Taking into account the portfolio's stated objectives a Fund Manager should not trade excessively,

Please define excessive trades

- 3.13 The Fund Manager must report turnover in the client's portfolio, where measurement of turnover includes cross trades.

Regular report is not necessary unless upon request

Best Execution

- 3.14 A Fund Manager should execute client orders on the best available terms, taking into account the relevant market conditions at the time for transactions of the kind and size concerned.

3.15 The use of any broker/dealer for a portfolio should not exceed 50% of the portfolio's dealings in value in any one financial year of the portfolio concerned

Comment: 3.15 Should include .."unless the client request the fund manager to deal with certain broker(s)".

Participation in Initial Public Offers

3.16 Where a fund manager participates in an initial public offering on behalf of clients, it should ensure that:

- (1) The allotted securities are allocated among clients' in accordance with the portfolio's stated objectives, investment restrictions and guidelines
- (2) Exceptions to (1) above must be documented.

Transactions with Connected Persons

3.17 A Fund Manager should not carry out any transaction on behalf of a client with a company to whom the Fund Manager is affiliated unless such transaction is carried out on arm's length terms, consistent with best execution standards, and at a commission rate no higher than customary institutional rates.

Cross Trades

3.18 A Fund Manager should only undertake sale and purchase transactions between client accounts (cross- trades) where:

- (a) The sale and purchase decisions are in the best interests of both clients [or both unit trust funds or between clients and unit trust funds];
- (b) The trades are executed on arm's length terms at current market value;
- (c) The reason for such trades is documented prior to execution; and
- (d) Such activity is disclosed to both clients

- (e) Such activity is executed through an market intermediary

3.19 Cross trades between staff personal accounts or proprietary accounts and client accounts are prohibited

Overtrading

3.20 Prior to executing a client order or a proprietary order designated staff should ensure that

- i) The status of the account (active, closed or being on an internal watch list, etc.) is appropriate
- ii) The order is conducted within applicable account limits, if any (e.g. trade, position, credit);
- iii) The relevant account has sufficient funds or securities to meet the obligations of the transaction
- iv) In the case of a sell order, the sufficiency and availability of securities

Analyst independence

3.21 The Fund Manager must:

- i) Design and establish a formal written policy on managing conflicts of interest between its employees and
 - (1) Corporate issuers;
 - (2) Research analysts who are employees of financial institutions, broker, or others from which the firm purchases research
- ii) Make available the formal written policy in 3.21i) above to clients and prospective clients (both investing and corporate)

Comment: formal written policy shall be made available upon request by clients and prospective clients.

- iii) Disseminate the formal written policy 3.21i) above to all firm employees;

3.22 The Fund Manager must disclose conflicts of interest, if any, to clients and prospective clients.

Disclose only upon request

3.23 The Fund Manager must have policies and procedures to ensure its research is independent and objective in order to provide a reasonable and adequate basis for making investment decisions and taking investment action

Soft Commissions Arrangements

Prohibition

3.24 The Fund Manager must not retain any rebate from, or otherwise share in any commission with, any broker/dealer in consideration for directing dealings in the investments of the client. Accordingly, any rebates or shared commissions should be directed to the account of the client concerned.

Permissibles

3.25 The Fund Manager may only receive soft commissions in the form of goods and services that support the investment decision making process.

3.26 The goods and services delivered under soft commission arrangement and accepted by Fund Managers pursuant to such an arrangement may include but is not limited to,

- i) Research and advisory services
- ii) Specific advice of the value of any investment
- iii) Economic and political analyses
- iv) Portfolio analyses
- v) Custodial services

vi) Data and quotation services

vii) Computer hardware and software

3.27 The receipt of cash under soft commission arrangement is prohibited.

Maintaining records

3.28 Fund Managers who receive goods or services (i.e. soft commissions) from a broker must maintain a record of soft commission arrangement and activities;

Comment: Fund manager should not record in details all item no (i) to (v) in 3.26 above as it is impractical and hard to quantify. These services are received daily almost from all brokers. Just mention in general that we have received those services.

Client benefit

3.29 Notwithstanding 3.24 above, goods and services ("soft commissions") provided by any broker/dealer to the Fund Manager may be retained by the Fund Manager but only if the goods and services are of demonstrable benefit to the client

Best execution

3.30 Notwithstanding 3.24 above, goods and services ("soft commissions") provided by any broker/dealer to the Fund Manager may be retained by the Fund Manager or any delegate thereof, but only if the Dealings by the broker/dealer for the fund are executed on terms which are the best available for the fund ("best execution" basis);

Disclosure

3.31 The Fund Manager intention to, or practice of, retaining soft commissions must adequately disclosed in the investment management agreement; and

3.32 The Fund Manager soft commission practices must be adequately disclosed in the reports to the clients (including a description of the goods and services received by the Fund Manager or delegate).

Comment: Fund manager soft commission practices should be disclosed in the fund management agreement only.

3.33 In the event the Fund Manager receives any soft commission (i.e. goods and services) from its broker(s)/dealer(s) by virtue of transactions conducted by the fund, the following is required to be disclosed to the client:

- i) Identification of the goods/services received; and
- ii) Manner in which the goods/services received were utilised.

Comment: Same as 3.31 above, to disclose upon client's request.

Verification

3.34 The Compliance Officer must verify that any goods or services received by the Fund Manager from any broker/dealer fulfils the above requirements.

Proprietary and Personal Trading

Proprietary Transactions

3.35 Fund Manager must design, establish and implement adequate internal policies on

- i) Code of conduct of employees,
- ii) Proper corporate governance, and
- iii) 'Chinese walls'

To ensure that proprietary transaction are segregated from clients' transaction

3.36 In addition, proprietary transactions must be conducted through a separate licensed Fund Manager Representative who must not also be managing client funds

Employee Transactions

3.37 A fund manager should ensure that it has internal rules or provisions in its contracts of employment for employees

(a) That employees are required to disclose existing securities holdings held personally (whether directly or indirectly, which includes a purchase or sale through his own nominees for or own behalf of his relatives) and those owned by their spouses and children upon joining the Fund Manager;

(b) Each employee of the Fund Manager must obtain written approval of a Director of Fund Manager to trade.

Comment: (b) is not necessary as long as the employees disclose the trade (transaction) and maintain a proper log book/register.

Director Transactions

3.38 Directors must maintain policies and procedures on the disclosure of their individual securities transactions as required by the securities laws.

3.39 All Executive Directors must obtain prior approval of the Board of Directors for each securities transaction.

Comment: Not necessary as long as the Executive Directors disclosed the transactions and maintain proper log books and register.

Associated Persons Transactions

3.40 The Fund Manager must ensure that it has internal rules or provisions in its contracts with Members of the investment committee that require the Investment Committee Member to

i) Disclose existing securities holdings held personally (whether directly or indirectly, which includes a purchase or sale through his own nominees for or own behalf of his relatives) and those owned by their spouses and children upon joining the Investment Committee

- ii) Similarly comply with the provisions of securities laws relating to disclosure of securities transactions by directors

Misuse of information

3.41 The Fund Manager must have written policies and procedures reasonably designed to prevent the misuse of material non-public information by its employees and or persons associated with the Fund Manager, such as members of an Investment Committee.

Comment: Non-public information need to be elaborated (detailed out).

3.42 The Fund Manager must have written policies and procedures reasonably designed to prevent front running by its employees and or persons associated with the Fund Manager, such as members of an Investment Committee.

3.43 A Fund Manager must disclose all interests in securities as required by all applicable statutory requirements and have procedures in place to ensure that staff are aware of such requirements.

Records

3.44 A Fund Manager must maintain adequate records of proprietary matters and dealings (including accounting records).

3.45 A Fund Manager must maintain proper records of transactions by employee and directors, and house such records with the Compliance Officer.

Comment: Record shall be maintained by fund manager but the compliance officer has access to it upon request.

Valuation

3.46 The Fund Manager must maintain written portfolio valuations daily (while debt securities should be valued in accordance with Appendix 1: Guidelines for the Portfolio Valuation of Debt Securities). The valuation should as a minimum, include the following:

- (a) The date at which the valuation is made;
- (b) The contents and value of the proprietary portfolio at that date including income received or receivable;
- (c) Movements in the value of the proprietary portfolio;
- (d) Any open positions in relation to derivative transactions.

Accuracy of records

3.47 The Fund Manager must have policies and procedures to create and maintain accurate records in a manner that secures them from unauthorized alteration or use and protects them from untimely destruction.

3.48 A Fund Manager should

- i) Arrange to carry out reconciliations of the firm's internal records against those issued by third parties e.g. clearing houses, banks, custodians, counterparties and executing brokers, to identify and rectify any errors, omissions or misplacement of assets.
- ii) *Ensure that its records truly and adequately reflects the status of clients' monies and assets held by custodian or by the Fund Manager (as custodian) whether in a bank account or not*

3.49 For conducting effective client's account supervision, comprehensive records of all client accounts and transactions done must be maintained and be readily available to the supervisory staff.

3.50 *The Fund Manager's external auditors must obtain confirmation from all custodians / banks on the accounts that contain clients monies;*

Comment: Propose to delete item 3.50 because asset management company is required to provide 'lampiran A' (which is similar to 3.50 item) to SC before 31st March every year.

Reporting to Clients

3.51 A Fund Manager should provide each client directly with:

- i) A regular statement of account, at least monthly, of the client's portfolio and transactions undertaken on his behalf

Comment: The frequent of the reports should be as agreed by client as stated in the agreement.

- ii) A regular report, at least monthly, of the composite performance of similar funds and of the appropriate benchmarks

Comment: The frequent of the reports should be as agreed by client as stated in the agreement.

- iii) Any other information required by the client

3.52 The Compliance Officer must verify that the Fund Manager firm has disclosed to the client their monies and assets in a complete manner

3.53 The Fund Manager must advise the client that, in addition to the custodian delivering the monthly statement of transactions to the Fund Manager, the client has the authority to instruct the custodian to deliver the same directly to herself or to whomever she so appoints to receive such statements.

Valuation of client portfolio

3.54 A Fund Manager should:

- (1) Provide written portfolio valuations, using Appendix 4: Valuation Methodologies, to the client at least as regularly as provided in the Investment Agreement. The report should as minimum, include the following:

- (a) The date at which the report is made;
- (b) The contents and value of the client portfolio at that date including income received or receivable;
- (c) Movements in the value of the client portfolio;
- (d) Any positions in relation to derivative transactions.

Performance review

3.55 The Fund Manager must review the performance of each client's account against an appropriate composite of similar funds, or agreed benchmark, either in writing to the client or by way of meeting, at least twice a year.

Representations in Marketing Activities

Representations by Firm or Employees

3.56 A Fund Manager should ensure that any representations made and information supplied to a client are accurate and not misleading.

Issue of Marketing Materials

3.57 A Fund Manager should ensure that all advertisements and marketing materials are approved by the Securities Commission before issue.

3.58 A Fund Manager should ensure that marketing materials are accurate and not misleading and that any performance claims or claims of compliance with independent performance presentation standards are supported by a recognised financial and statistical reporting service.

Advertisements, Sales Literature and Other Forms of Communications to the Client / Public

3.59 All communications must be factual, and based on principles of good faith and fair dealing. As such the material must not in any way mislead or deceive. Special care must be

taken when performance, forecasts and projections are mentioned.

3.60 All such communications must be reviewed prior to issue by Compliance Officer.

Comment: Review of all communications by Compliance Officer is not practical (for advertisement is ok).

Information About the Firm

3.61 A Fund Manager should:

- (1) Provide clients with adequate information about the firm including its business address, relevant conditions or restrictions under which its business is conducted, and the identity and status of persons acting on its behalf with whom the client may have contact;
- (2) Disclose the financial condition of its business to a client upon request.

Fees and Expenses

Disclosure of Fees and Charges

3.62 A Fund Manager should disclose to the client the basis and amount of its fees and charges as well as the structure of the arrangement.

Fair and Reasonable Charges

3.63 All charges and fees affecting a client should be fair, reasonable and clear in the circumstances and be characterized by good faith.

Fund Manager continuity

3.64 A Fund Manager should have in place appropriate arrangements, having regard to the nature, scale and complexity of its business, to ensure that it can continue to function and meet its regulatory obligations in the event of an

unforeseen interruption. These arrangements should be regularly updated and tested to ensure their effectiveness.

- 3.65 A Fund Manager who withdraws from business should ensure that any affected clients are promptly notified and that proper arrangements remain in place for the safekeeping of client assets. Where a company is being wound up it should comply with the all applicable statutory requirements.

Records

- 3.66 Fund Managers must take reasonable care to make and retain adequate records of all matters and dealings (including accounting records) in accordance with the requirements of the law
- 3.67 Fund Managers are required to maintain any records documenting their annual review in an easily accessible place for at least seven years after the end of the fiscal year in which the review was conducted, the first two years in an appropriate office of the Fund Manager.

Anti-Money Laundering

- 3.68 Fund Manager must develop an anti-money laundering program, which includes the establishment and implementation of policies, procedures, and internal controls reasonably designed to prevent the Fund Manager firm from being used for money laundering and to achieve compliance with the applicable provisions of the Anti Money Laundering Act.

Comment: Should mention what actions to be taken if fund manager finds out that a client's account involved in money laundering activities.

- 3.69 A Fund Manager should:
- (1) Take all reasonable steps to:
 - (a) Establish the client's full and true identity, including the identity of the actual beneficiaries, where appropriate,

- (b) Verify that identification where required;
 - (c) Establish, where appropriate, the client's financial situation, investment experience, and investment objectives; and
- (2) Ensure that the account to be opened is approved in accordance with relevant business conduct and best sales practices including the 'know your client rule'

Segregation of duties

3.70 Fund Manager to ensure that adequate internal policies on code of conduct of employees, procedures to effect proper corporate governance, and policy on 'Chinese walls' are in place to facilitate the Compliance Officer in carrying out her duties in an independent and objective manner without conflict.

3.71 A Fund Manager should ensure that key duties and functions are appropriately segregated. In particular:

- i) The segregation of departments and personnel in the front office functions, middle office functions and back office functions.
- ii) Compliance and internal audit functions should be separated from each other.

Comment: Compliance and internal auditor should be working together.

Safeguard client's interests

Firm wide protection

3.72 A Fund Manager should

- i) Maintain proper procedures to ensure confidentiality of client information.

- ii) Ensure that a sound system of internal control is maintained to safeguard clients' interest, which should cover not only financial controls but operational and compliance controls and operational risk management;
- iii) Design, establish and maintain safeguards for the protection of client records and information;

Safety of Client Assets

3.73 A Fund Manager should ensure that the assets entrusted to it are properly safeguarded from conversion or inappropriate use by Fund Manager personnel.

3.74 The Fund Manager should arrange for the appointment of a custodian, taking all reasonable steps to ensure that the custodian is properly qualified for the performance of its functions.

3.75 *The Compliance Officer must ensure that transactions in the trust account are in accordance with the clients investment policy*

Appointment of Custodian

3.76 The Fund Manager must advise, and the Client must acknowledge in writing, that under Section 47C (10) "Operation of Trust Account" of the SIA, 1983 that he, the Client, has the sole authority to appoint in writing, the custodian as prescribed in the law.

3.77 The Fund Manager must not act as custodian of the client's assets, monies and or securities. In the event, the client delegates the appointment of the custodian to the Fund Manager, the Fund Manager must exercise reasonable care in the selection and appointment of the client's custodian as well as exercising diligence in the supervision of the custodian's performance of its obligations and their continuing ability to do the same.

Authorization and approval

3.78 A Fund Manager must ensure that the client has the authority to enter into an agreement for the delegation of the

management of its assets for example, board resolution or equivalent.

Client complaints

3.79 A Fund Manager should:

- (1) Maintain procedures to ensure that:
 - (a) Complaints from clients relating to its business are handled in a timely and appropriate manner;
 - (b) Steps are taken to investigate and respond promptly to a complaint by a person other than an individual directly concerned with the subject of the complaint, or by the Compliance Officer;
- (2) Ensure that the Compliance Officer have a copy of the clients' complaint log

Comment: Clients' complaint log book shall be made available upon request.

- (3) Maintain a register of complaints to give effect to 3.79(1)(a) above, which should be tabled to the Board of Directors on a regular basis.

Comment: Not necessary tabled to BOD on regular basis unless upon request. Complained report regularly to the BOD and covers only 3.79(2).

Receipt or Provisions of Benefits

3.80 A Fund Manager:

- i) Should not offer or accept any inducement in connection with the affairs or business of a client which is likely to significantly conflict with the duties owed to clients;

- ii) Should maintain:
 - (1) Written guidelines, including monetary limits, about the acceptance by employees of gifts, rebates or other benefits received from clients or business contacts;
 - (2) A register of benefits received above the limit specified by the firm.

Internal Audit

3.81 A Fund Manager should be encouraged to maintain an independent and objective audit function to report on the adequacy, effectiveness and efficiency of the firm's management, management of risk, operations and internal controls. The audit function should:

- i) Follow clearly defined terms of the internal audit framework which set out the scope, objectives, approach and reporting requirements;
- ii) Adequately plan, control and record all audit work performed, and record the findings, conclusions and recommendations; and
- iii) Report to the Board of Directors on all matters highlighted in the audit report, which should be resolved satisfactorily and in a timely manner.

Training

3.82 The Fund Manager must ensure that its officers are adequately trained to perform their duties effectively

3.83 The Fund Manager must allocate and spend at least 5% per annum of its gross salaries expense on training for its employees

Comment: Amount allocated for training should be equivalent to amount spent by unit trust companies i.e. 3% of gross salaries.

3.84 The Fund Manager may take into account training expenses funded by soft commission arrangements when estimating its annual training expenses in 3.83 above.

Functional Separation

3.85 Where a Fund Manager is part of a group of companies, which undertake other financial activities it should ensure there is an effective system of functional barriers (Chinese Walls) in place to prevent the flow of information that may be material non-public or price sensitive between the different areas of operations.

Allocation of Responsibility

Board's role, duties and responsibilities

3.86 The Board of Directors is ultimately responsible for the non-compliance of the regulatory framework. Therefore, if Board of Directors fails to act on the notification of the Compliance Officer, it shall be deemed as a failure to act on the part of the Board of Directors.

3.87 The Board of Directors shall appoint the Compliance Officer as the point of contact for the Securities Commission.

3.88 The Board of Directors must appoint a Compliance Officer with sufficient seniority and authority to perform the functions described below:

3.89 The Board of Directors must ensure full disclosure of the client's accounting records, monies and property to the client.

3.90 The Board of Directors must comply with the Malaysian Code of Corporate Governance

Appointment of Compliance Officer

3.91 In the selection and appointment of the Compliance Officer, the Board of Directors shall ensure that the Compliance Officer

- i) Shall be qualified to perform supervisory duties i.e. the Compliance Officer is required to
 - (1) Have completed and have been awarded an university degree or relevant professional qualifications or its equivalent
 - (2) Have accumulated 3 years of relevant experience in the industry
 - (3) Have passed the examination conducted by the Securities Commission, complied with any continuing education requirements by the Securities Commission and registered with the Securities Commission.

3.92 In addition to qualifications laid down by the Securities Commission, the Compliance Officer must have the Board of Director's approval and authority to act independently, without interference or hindrance, to effect decisions and to carry out their responsibilities effectively.

Communication

3.93 The Board of Directors must provide for:

- i) Effective channels of communication to ensure that all staff are fully aware of policies and procedures affecting their responsibilities

Adequate resources and access

3.94 The Board of Directors must ensure that

- i) The persons appointed to administer the compliance function should be adequately resourced and should have unrestricted access to the firm's relevant records as well as ultimate recourse to its Board of Directors.
- ii) A compliance function should be staffed by an appropriate number of competent staffs who are sufficiently independent to perform their duties objectively.
- iii) Sufficient copies of operations manual incorporating practice guidance, that is well documented and up to date to ensure compliance

- iv) A proper system of record keeping is maintained while maintaining the confidentiality of compliance records

Responsibilities of the Compliance Officer

General

- 3.95 The Compliance Officer shall be responsible for:
- i) Administering the compliance policies and procedures
 - ii) Coordinate the fund's (or firm's) compliance efforts and
 - iii) To establish procedures for annual review of its compliance programs
 - iv) Establish and maintain policies and procedures designed to
 - (1) Comply with all relevant laws, rules, regulations, directives, guidelines, etc
 - (2) Prevent violations (by, for example, separating operational functions such as trading from reporting)
 - (3) Detect violations of securities laws (by, for example, requiring a supervisor to review employees' personal securities transactions), and
 - (4) Correct promptly any material violations.
 - v) Maintain knowledge of changes to the law and relevant industry developments, update manuals and disseminate information of such developments
 - vi) To serve as a point of contact with the Securities Commission

Specific

- 3.96 The responsibilities of Compliance Officers, to the extent relevant, should, at a minimum, address the following:

Licensing

i) Personnel responsible for the following must be appropriately licensed:

- (1) Representing a Fund Manager's performance or capabilities with a view to soliciting the client's mandate,
- (2) Preparing and recommending a client's investment policy statement
- (3) Preparing investment analysis, reports and recommendations

Comment: item (3) Analysts should not be licensed. (same as in broking firm)

(4) Making investment decisions

Comment: Should not include Investment Committee members.

(5) Executing investment action

Detection of violation

ii) In the event a violation is detected, the Compliance Officer is required to

- (1) Examine the extent of non-compliance
- (2) Report to the Board of Directors with remedial action taken, if any

iii) In the event a violation of securities laws, regulations and / or guidelines has been detected, the Compliance Officer is required to report the violation to the Securities Commission

Client's complaints/ disputes

iv) Ensure that procedures for reporting, investigating and documenting client's complaints are in place as well as ensuring that appropriate action has been taken on client's complaints

Maintain Compliance Manual

v) Fund Manager must establish and maintain a comprehensive "Compliance Manual"

Comment: Compliance Manual is established and maintain by Compliance Officer.

Client's Mandate

vi) Ensure that the client's portfolio is managed within the agreed investment mandate or investment policy.

vii) Ensure that procedures for account opening as well as the suitability rules have been strictly adhered to.

viii) Ensure that the Fund Manager maintains proper client's records

Client Account Opening

ix) To ensure that

(1) Necessary information on client has been obtained,

(2) Client's written investment management agreement has been duly executed

(3) Supporting written authority/approval to enter into the investment management agreement has been obtained

Quarterly reports to the Board of Directors

x) The Compliance Officer is required to furnish the board of directors at least quarterly, with a written report on the operations of the fund's policies and procedures, including

- (1) Any material changes to the policies and procedures since the last report,
- (2) Any recommendations for material changes to the policies and procedures as a result of the annual review, and
- (3) Any material compliance matters requiring remedial action that occurred since the date of the last report

Record keeping

xi) Fund Managers are required to maintain any records documenting their annual review in an easily accessible place for at least seven years after the end of the fiscal year in which the review was conducted, the first two years in an appropriate office of the Fund Manager.

Coordinate the firm's compliance efforts

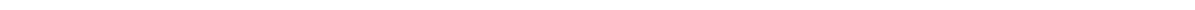
xii) If there is an Audit Committee, the Compliance Officer should report to the committee.

xiii) Ensure that compliance procedures are effectively communicated within the Fund Manager firm

xiv) To assist in training and educating staff members on compliance matters

Appendix 1: Guidelines for the Portfolio Valuation of Debt Securities

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Appendix 2: Contents of the Investment Management Agreement

Please refer page 9.8 page 2 of Module 9 Funds Management Regulation Examination Study Guide



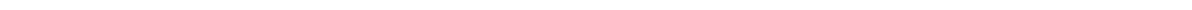
Appendix 3: Definitions page

1 Soft dollar arrangements

- i) Definition Trading practices, including procedures by which the fund manager satisfies its best execution obligation, uses client brokerage to obtain research and other services ("soft dollar arrangements"), and allocates aggregate trades among clients;
-

Appendix 4: Valuation Methodologies^{3.54(1)}

Please refer Schedule D page 108 of Guidelines on [Unit Trust Funds Revised Edition](#):
1 April 2003 Effective Date: 1 May 2003 subject to Appendix 1: Guidelines for the
Portfolio Valuation of Debt Securities above



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Related documents

- 1 Joint Working Group letter 19 January 2004 **“PROPOSED COMPLIANCE GUIDELINES FOR FUND MANAGERS”**

..\..\comment\06_26jan2004\invitation\to_all_FM\19jan2004.doc
