

KAF Fund Management Sdn Bhd

EXPOSURE PERMISSION

If the comments are going to be presented verbatim, you may use the name of our firm for both exposures.

COMPLIANCE GUIDELINES

Proposed Guideline

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

Execution

The imposition of 'hard-coded' limits on the allocation of trades could conceivably impose additional overheads in the execution of orders and possibly impact the efficiency of trading operations to the detriment of the management of client portfolios while only giving marginal benefit to the client in terms of best execution. The fund manager will have to constantly monitor brokerage levels and may be obliged to use redundant brokers just to comply with the hard coded criteria. Although true in principle, in practice, using multiple brokers does not always result in trades that are deemed 'best execution' for the client. This would particularly true in the case of small accounts where the use of multiple brokers may results in increased transaction costs.

Section 3.14 already takes into account the spirit of best execution for the purposes of trades to ensure that clients receive best terms possible. This may mean using a broad range of brokers or only a single execution broker, and thus should be left to the discretion of the Fund Manager and/or the Client.

Value Added Services

Some AMCs affiliated to stockbroking companies provide fund management services at a reduced or nominal rate as a value added service to the stockbroking clients. Adopting this limit as a compliance guideline would not allow fund managers to continue providing this service while remaining in compliance.

Specific Client Requests

Certain clients affiliated to stock broking companies require that execution be done solely or predominantly through their singularly nominated brokers. Adopting this limit as a compliance guideline would not allow fund manager to continue servicing these class of clients while remaining in compliance.

Recommendation

The imposition of limits (if any) on the usage of brokers/dealers should be left to the discretion of the client and/or the AMC which can be mandated in the Investment Management Agreement in the case of specific clients or the internal practice notes of the respective AMCs.

Proposed Guideline

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

Comment*Special Circumstances*

There may be situations where it would be necessary to conduct cross trades between client accounts and proprietary accounts to facilitate certain investment management services (particularly in the case of IPOs and placements as well as error trades). As such, the total prohibition of such trades could make some operational aspects of investment management unnecessarily difficult.

Recommendation

Cross trades between proprietary accounts and clients accounts should not be prohibited, however, these trades should be reported in full detail to the client by the AMC as and when they occur in order to ensure transparency. Cross trades involving staff personal accounts and client accounts, however, should be prohibited.

Proposed Guideline

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

Comment*Redundant Conditions*

As an officer of the AMC, an Executive Director would already be subject to the disclosure requirements as highlighted in 3.37 and under existing securities laws as in 3.38 as well as the additional guidelines on personal account dealing in sections 3.41-43. As such, existing guidelines are already in place to ensure proper governance of client interests, codes of conduct and deterrence of fraudulent practises of EDs.

Recommendation

Utilise existing guidelines which apply to Directors and Employees' personal account transactions to be applied to Executive Directors.

Proposed Guideline

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

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

Comment

Operational Practicality

While the issue of misrepresentation of publicity and marketing material to clients is a concern to the credibility of the fund management industry, overregulation in this manner may only serve to stifle innovation of new fund management products as well as add additionally layers of unnecessary correspondence with regulators in the course of the business of fund management.

In the same vein, requiring every marketing correspondence be vetted by a Compliance Officer prior to issue adds a further unnecessary layer to the compliance responsibilities while giving very little additional benefit as most of the time, marketing correspondences would already have been endorsed by senior officers of the AMC.

Moreover, requiring all marketing materials to be approved by the SC will result in a additional burden to the resources of the Commission which seem already stretched in its monitoring role. This requirement will also be creating delays in taking fund management products to market, many of which could be time-sensitive. In addition, under this guideline, any time there is an update of dynamic information such as performance track records, assets under management and pricing information and such, which constitute essential parts of marketing materials, this would continually need to be submitted to the SC.

Recommendation

A Fund Manager should ensure that all advertisements and marketing materials should be made readily available to the Securities Commission for review by the AMC as required.

Proposed Guideline

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

Sufficient Requirement

While continued professional training is an essential part of the development of professional fund managers, dictating a specific training budget as part of compliance would take the internal training policy of the AMC out of the hands of the management while not necessarily ensure a better level of client service. Many fund management firms conduct training on an in-house or group basis, which oftentimes is of a higher standard than that offered by external training programmes. As such, the imposition of this criteria as a guideline would only serve to punish AMCs sufficient internal training programs provided by the company itself or its associates.

Section 3.82 of these guidelines deals with the need to ensure the adequate training of officers of the company and is sufficient in representing the spirit of continuing education. Moreover, the CPE program conducted by the SC already requires professional fund managers to engage in continuing training and education in order to retain their license.

Recommendation

Additional training expenses and policy (above and beyond CPE requirements) should be left to the discretion of the individual AMC as opposed being dictated as part of compliance guidelines.

VALUATION OF DEBT SECURITIES

Proposed Guideline

3.1. Debt securities with maturities beyond 90 days These Guidelines require as a minimum, the collection of 3 local time end of day quotes, in which case the input to the portfolio will be the direct average of these three data and depending on whether interest is receivable, accrued interest should be included as well.

Comment

Unavailability of Pricing

Unlike the case for equities, the corporate bond market in Malaysia is a predominantly Over-The-Counter (“OTC”) market which is still developing, and obtaining replicable and consistent pricing for corporate bonds is often a problem. Even the regular pricing of sovereign issues is only limited to Malaysian Government Securities (“MGS”), while other statutory issues such as Khazanah and Cagamas are only given in indicative yields.

Even with the introduction of the Bond Information and Dissemination System (“BIDS”), which is meant to display the prices of trades done in the bond market, the smaller issues are often not traded and even for the more liquid issues, the last traded price found on BIDS is sometimes months out of date. In summary, because of this illiquidity of the market, the following problems often arise;

- There is no Last Traded Price/Yield on BIDS for a particular security.
- There is a Last Traded Price/Yield, but it is significantly out of date.
- There is a large variance in indicative prices by valuation sources.
- Indicative prices given by valuation sources are not executable.

Therefore, consistently obtaining the minimum of 3 valid sources of valuation data for every debt society held in all portfolios managed under an AMC regularly and reliably could prove to be very difficult if not impossible.

Recommendation

Allow AMCs to retain their existing valuation methods for the present as long as the method is consistent and justifiable, as opposed to making the above guideline a compliance requirement. However, the valuation method used by the AMC should be well documented and the client should be made aware of the method and convention either as part of the Investment Management Agreement or in the periodic reports. As the bond market develops and more consistent valuation sources are made available, then valuing debt securities as an aggregation of pricing sources may be considered.