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## BOARD NOTICES

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### BOARD NOTICE 90 OF 2014

### FINANCIAL SERVICES BOARD

### COLLECTIVE INVESTMENT SCHEMES CONTROL ACT, 2002

#### DETERMINATION OF SECURITIES, CLASSES OF SECURITIES, ASSETS OR CLASSES OF ASSETS THAT MAY BE INCLUDED IN A PORTFOLIO OF A COLLECTIVE INVESTMENT SCHEME IN SECURITIES AND THE MANNER IN WHICH AND THE LIMITS AND CONDITIONS SUBJECT TO WHICH SECURITIES OR ASSETS MAY BE SO INCLUDED

I, Dube Phineas Tshidi, Registrar of Collective Investment Schemes, hereby determine, under sections 40, 45(a)(ii) and (b)(ii), 46 and 85 of the Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002), in the Schedule in respect of a collective investment scheme in securities-

- (a) the portfolios in which securities, classes of securities, assets or classes of assets may be included;
- (b) the securities, classes of securities, assets or classes of assets that may be so included; and
- (c) the manner in which and the limits and conditions subject to which securities, classes of securities, assets or classes of assets may be so included.



D P TSHIDI

REGISTRAR OF COLLECTIVE INVESTMENT SCHEMES

## **SCHEDULE**

### **Preamble**

This Notice stipulates the portfolios which may comprise a collective investment scheme in securities, the types of investments that may be included in portfolios of a collective investment scheme in securities as well as the conditions, limits and the manner in which the portfolios and securities may be included in a collective investment scheme in securities.

The principles governing managers of collective investment schemes in respect of the administration of collective investment schemes as provided in the Act continue to apply. A manager must administer a collective investment scheme honestly, fairly, with skill, care and diligence and in the interest of investors. In the inclusion of investments in a portfolio of a collective investment scheme, the manager must ensure that all investments have been subjected to adequate due diligence in line with the investment objectives of the applicable portfolio.

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## 1. Definitions.

In this Schedule, “**the Act**” means the Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002), and any word or expression to which a meaning has been assigned in the Act bears the meaning so assigned to it, and unless the context otherwise indicates—

“**AAOIFI**” means the Accounting and Auditing Organisation for Islamic Financial Institutions;

“**assets in liquid form**” means—

- (a) any amount of cash consisting of Reserve Bank notes and coins;
- (b) any balance in an account with a—
  - (i) bank;
  - (ii) branch of a foreign institution, which institution is authorised in terms of the Banks Act to conduct the business of a bank by means of such branch, or
  - (iii) foreign bank;
- (c) any positive net balance in a settlement account, other than a margin account, operated for the buying and selling of underlying assets;
- (d) any instrument determined in Chapter II of this Notice;
- (e) participatory interests in a money market portfolio referred to in Chapter II of this Notice;

on condition that the assets referred to in sub-paragraphs (a), (b), (d) and (e) are capable of being converted, without any penalty on capital in terms of the conditions of the security, into cash within seven days. In determining any limit under this Notice, exposure through a settlement account contemplated in paragraph (c) must be added to other exposures to the same issuer/guarantor;

“**bank**” means a bank as defined in the Banks Act, or a mutual bank as defined in the Mutual Banks Act;

“**Banks Act**” means the Banks Act, 1990 (Act No. 94 of 1990);

“**Bills of Exchange Act**” means the Bills of Exchange Act, 1964 (Act No. 34 of 1964);

**“guarantee”** means a guarantee, or an undertaking to provide the financial support necessary, to ensure full and timely debt service and redemption of a debt;

**“index”** means the compilation of securities listed on an exchange or a number of exchanges or the compilation of prices or rates of non-equity securities, publicly available from a recognised index compiler, representing a statistical indicator of the aggregate value of the securities comprising the index, provided that the composition of such an index meets the same level of diversification as contemplated in this Notice;

**“Islamic Bond (Sukuk)”** means a certificate of equal value representing undivided shares in the ownership of tangible assets, usufructs and services or (in the ownership of) the assets of particular projects or special investment activity, as defined by AAOIFI ;

**“Islamic Compliant Instrument”** means an instrument held in a Shari’ah compliant portfolio, being a collective investment scheme in securities managed under the Act in compliance with the relevant standards of AAOIFI, structured in such a manner that the instrument held by the portfolio will be an instrument defined under paragraphs 2(1)(a);

**“Mutual Banks Act”** means the Mutual Banks Act, 1993 (Act No. 124 of 1993);

**“physical exchange traded fund”** means an exchange traded fund which tracks an index or the value of precious metals and which physically holds the underlying assets it is tracking;

**“physical exchange traded notes”** means exchange traded notes whose issuer physically holds the underlying assets of the index they are tracking; and

**“recognised index compiler”** means an entity which compiles and publishes indices which are acceptable to an exchange.

## CHAPTER I

### STANDARD PORTFOLIO

#### 2. Application of Chapter

(1) For the purposes of this Chapter-

**“investment company”** means a company that is engaged primarily in the business of investment in the securities of companies for the purpose of revenue and profit and not for the purpose of exercising control;

**“securities”** means-

(a)

- (i) shares, preference shares, whether redeemable, convertible or perpetual and exchange depository receipts in public companies, whether listed or not;
- (ii) listed participatory interests in a collective investment scheme in property;
- (iii) participatory interests in a collective investment scheme in securities, whether listed or not,
- (iv) bonds, debentures, debenture stock and debenture bonds,
- (v) notes, whether secured or not, and whether or not they have inherent option rights or are convertible;
- (vi) Islamic bonds (Sukuks); and
- (vii) Islamic compliant instruments.

(b) the following listed financial instruments, subject to the conditions set out in Chapter V of this Notice-

- (i) a futures contract;
- (ii) an option contract;
- (iii) a warrant;
- (iv) an index tracking certificate;
- (v) an instrument based on any underlying asset or basket of underlying assets as defined in Chapter V of this Notice, other

- than an Islamic Bond (Sukuk) or an Islamic Compliant Instrument;
- (c) the following unlisted financial instruments, subject to the conditions set out in Chapter V of this Notice:
    - (i) forward currency swap;
    - (ii) forward currency option issued by a bank;
    - (iii) interest rate swap;
    - (iv) exchange rate swap; and
    - (v) index swap;
  - (d) any asset referred to in the definition of **“assets in liquid form”** in paragraph 1 of this Notice; or
  - (e) any “money market instrument” as determined in paragraph 5 of this Notice.

(2) This Chapter applies to a portfolio that consists of securities referred to in the definition of **“securities”** in sub-paragraph 2(1) but does not apply to any portfolio specifically dealt with in Chapters II, III, and IV of this Notice.

### 3. Conditions and limits of inclusion

(1)(a) Subject to sub-paragraphs (3), (8), (9), (10) and (11), a manager may include in a portfolio-

- (i) equity securities issued by any one concern-
  - (aa) with a market capitalisation of less than R2 billion, to an amount of five percent of the market value of all the assets comprised in the portfolio;
  - (bb) with a market capitalisation of R2 billion or more, 10 percent of the market value of all the assets comprised in the portfolio; or
- (ii) 120 percent, of that equity security's weighting in its relevant index, subject to-
  - (aa) a maximum of 20 percent of the market value of all the assets comprising the portfolio where the benchmark is the index representing the overall market or exchange;



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the class in question as long as any limit determined in sub-paragraph (a)(iii) is exceeded;

(bb) must within 12 months after the date on which such amalgamation, cession, transfer, take-over or non-optional corporate action becomes effective or within such further period as the registrar may determine, reduce the equity securities of the class in question to the limits determined in sub-paragraph (a)(iii).

(2)(a) Subject to sub-paragraphs (3) and (9), at least 90 percent of the market value of a portfolio must consist of –

- (i) securities traded on an exchange;
- (ii) instruments contemplated in sub-paragraphs (8) and (9);
- (iii) securities (other than exchange securities) acquired by the manager pursuant to the exercise of rights attaching to any exchange securities included in the portfolio; or any combination thereof.

(b) If any securities which are not listed on an exchange are included in a portfolio, such securities must be valued daily based on a generally recognised methodology and by a person acceptable to the trustee, subject to the requirements of the Act.

(c) Prior to a manager including any financial instruments or unlisted securities in a portfolio, it must satisfy the trustee that a risk management program designed to identify, measure, on a daily basis, and adequately cover risks emanating from exposure to the security, is in place and is efficient.

(3)(a) A manager may include in a portfolio participatory interests in portfolios (“underlying portfolios”) of collective investment schemes in securities, including exchange traded funds registered as collective investment schemes, collective investment schemes in property or of foreign collective investment schemes to a maximum aggregate value of 80

percent of the market value of the first-mentioned portfolio, provided that-

- (i) the maximum exposure to any one underlying portfolio may not exceed 20 percent of the market value of the first-mentioned portfolio;
- (ii) in the case of an underlying portfolio which is part of a foreign collective investment scheme, the foreign collective investment scheme must-
  - (aa) be subject to a due diligence investigation conducted by the manager, to the satisfaction of the trustee, to ascertain whether the portfolio would qualify for approval in terms of section 65(1)(c) of the Act and that the portfolio is available for investment and is not otherwise prohibited in its domicile of registration and;
  - (bb) be subject to an annual review by the manager to ensure that it continues to comply with the requirements of section 65 if the foreign collective investment scheme has not been approved in terms of 65 of the Act;
- (iii) in the case of an underlying portfolio that is managed, directly or by delegation, by the same manager or by any other company with which the manager is linked by common management or control, or by a substantial direct or indirect holding, that manager or other company may not charge any form of manager's charge (including initial or upfront fees, redemption fees or exit fees) on the underlying portfolio;
- (iv) in the case of an underlying portfolio holding participatory interests in other portfolios, each of those portfolios may not constitute more than 20 percent of their respective investments in other portfolios;
- (v) a manager may only include physical exchange traded funds or

exchange traded notes in a portfolio;

- (vi) a manager may not include exchange traded funds or exchange traded notes which are capable of obtaining leveraged exposure to underlying assets.

(b) The limit determined in sub-paragraph 3(a) may be exceeded only if the excess is due to appreciation or depreciation of the value of the underlying participatory interests constituting the portfolio, provided that a manager may not, for as long as the excess continues, purchase any further participatory interests for the portfolio.

(4) For the purposes of sub-paragraph (3)(a), the value of a participatory interest held by one portfolio in another must be calculated by reference to the lower of the repurchase price or the net asset value of the relevant participatory interest, at the latest available price before a repurchase price is calculated, or the market value in the case of exchange traded funds.

(5) A manager must ensure that a portfolio's investment policy provides for the inclusion of participatory interests in that portfolio.

(6) A manager may only include in a portfolio, participatory interests issued by a fund of funds if-

- (a) that fund of funds holds at least 85 percent of its assets outside the Republic; and

- (b) the fund of funds is not invested in another fund of funds or feeder fund.

(7) If a manager finds that a fund of funds is invested in another fund of funds or a feeder fund contrary to the provisions of sub-paragraph (6)(b), the manager concerned must, if the non-compliance is not rectified within 30 days of the date on which the manager became aware of the non-compliance, furnish the registrar with a detailed plan setting out measures to rectify the non-compliance.

(8) (a) A manager may include in a portfolio listed and unlisted financial instruments, subject to the limits and conditions determined in Chapter V of this Notice.

- (b) The financial instruments referred to in sub-paragraph 8(a) may only be

included for purposes of efficient portfolio management with the aim of reducing risk, reducing cost or generating capital or income for a portfolio with an acceptable level of risk or to achieve the investment objective of the portfolio. In this instance, the manager must ensure that a portfolio's investment policy provides for the inclusion of listed and unlisted financial instruments.

- (c) The manager must ensure that the listed or unlisted financial instruments are not used to leverage or gear the portfolio and are covered at all times.
- (9) (a) A manager may include the following non-equity securities, whether listed on an exchange or not, in a portfolio, subject to the limits prescribed in Table 1 below and, in respect of foreign non-equity securities, a due diligence investigation in accordance with the relevant provisions in Chapter VI of this Notice-
  - (i) any money market instrument as defined in Chapter II of this Notice;
  - (ii) bonds, debentures, debenture stock and debenture bonds, notes, whether or not they have inherent option rights or are convertible;
  - (iii) assets in liquid form;
  - (iv) Islamic Bonds (Sukuk) and Islamic Compliant Instruments;
  - (v) preference shares determined as non-equity securities in accordance with sub-paragraph 12(b);
  - (vi) an instrument issued by a bank as the counterparty, that is fully paid for (fully funded) by the purchaser, not synthetic and that provides a return profile that follows, is similar to, or is clearly referenced to an index whose return profile is clearly described in the offering documentation; and
  - (vii) other non-equity securities as determined in item 4 of Table 1

Table 1

Item	Categories of non-equity securities	Limits being the maximum percentage of the aggregate market value of the portfolio	
		Per issuer/guarantor as applicable	In aggregate for all issuers/guarantors as applicable
1	Non-equity securities issued or guaranteed by:		100%
1.1	the government of the Republic of South Africa;	100%	100%
1.2	any foreign government which has been assigned a foreign currency sovereign rating not lower than that of the Republic of South Africa;	100%	100%
1.3	any foreign government that does not comply with 1.2;	30%	100%
1.4	the South African Reserve Bank; and	100%	100%
1.5	the African Development Bank.	30%	30%
2	Non-equity securities issued or guaranteed by a local or foreign bank which forms part of a group of companies (in terms of international accounting standards) of which the holding company is listed on an exchange:		100%
2.1	with a market capitalisation for the listed group holding company of more than R 20 billion;	30%	100%
2.2	with a market capitalisation for the listed group holding company of between R 2 billion and R 20 billion.	20%	100%
2.3	with a market capitalisation for the listed group holding company less than R2 billion.	10%	100%
3	Non-equity securities issued or guaranteed by:		100%
3.1	a public entity under the Public Finance Management Act, 1999 (Act No. 1 of 1999); and	10%	100%
3.2	a municipality under the Local Government Municipal Finance Management Act, 2003 (Act No. 56 of 2003)	10%	20%
3.3	any local or foreign entity which is listed on an exchange,	10%	100%
4	Non-equity securities issued or guaranteed by local or foreign entities not described above where such security is:		25%
4.1	listed and traded on an exchange	5%	25%
4.2	not listed on an exchange, including, participatory interests in participation bonds	5%	10%

(b) In order to determine the market capitalisation of an internationally listed group holding company, a conversion must be done to Rand at

the prevailing foreign exchange rate on the date of inclusion and thereafter at least once every 30 days.

- (c) The limits prescribed in Table 1 may be exceeded only if the breach is due to appreciation or depreciation of the market value of the instruments comprising a portfolio; provided that a manager may not, for as long as the excess continues, purchase any further instruments of the class in respect of which the excess occurs for the portfolio.
- (d) If, after the date of inclusion of an instrument in a portfolio, a limit, prescribed in Table 1 becomes applicable to any instrument which limit is lower than the previous limit, the manager must rectify the position within 30 days of such reduced limit becoming applicable. If the manager and the trustee are of the view that rectification of the position within 30 days would be detrimental to a particular portfolio, the manager must, within seven days of the date of becoming aware of the change in limits, submit a detailed plan setting out measures to rectify the position, to the registrar for consideration for approval.
- (e) Where a manager, through no fault of its own, due to reasons other than the appreciation or depreciation of the market value of the instruments comprising a portfolio, is unable to comply with a limit prescribed in this paragraph, the manager must, if the breach is not rectified within 30 days of the date on which the manager becomes aware of the breach, submit a detailed plan setting out measures to rectify the breach, for consideration for approval by the Registrar.

(10) A manager may include in any index tracking portfolio, securities issued by any concern to an amount of 120 percent of that concern's weighting in a relevant index, subject to a maximum of 35 percent of the market value of all the assets comprising that portfolio.

(11) A manager may include in a precious metal and minerals portfolio, securities issued by any concern, equal to that concern's weighting in its relevant precious metal Index, subject to a maximum of 60 percent of the market value of all

the assets comprising that portfolio.

(12)(a) Where a manager includes preference shares in a portfolio, the shares must be treated as equity securities where the issuer of the shares has included them as part of its share capital on its balance sheet.

(b) Preference shares which do not form part of the share capital of an issuer must be treated as non-equity securities.

(13) A manager may only include in a portfolio instruments based on the value of any precious metal as defined in the Precious Metals Act, 2005 (Act No. 37 of 2005), to an aggregate maximum limit of 10 percent of the market value of all the assets comprising the portfolio, provided that-

(a) such instruments are listed and traded on an exchange and are not synthetic instruments;

(b) where the instruments are issued as exchange traded funds in the form of non-equity securities as contemplated for inclusion in terms of this Chapter, the exposure to such instruments must be added to the overall exposure permitted in terms of Table 1 for the relevant guarantor, or in the absence of a guarantor, the official market maker appointed by the issuer of the non-equity security;

(c) the portfolio may not be obliged to take physical delivery of the precious metal;

(d) the limit constitutes the entire commodity exposure of a portfolio; and

(e) these commodity exposure limits apply equally to a portfolio investing in a foreign collective investment scheme or exchange traded fund.

(14)(a) Despite the provisions of sub-paragraph (3) and subject to the provisions of paragraph 3(13), a manager may only invest in an exchange traded fund or an exchange traded note, whether organised as a portfolio of a collective investment scheme or not, where that exchange traded fund or exchange traded note ordinarily owns securities permitted by this Notice.



(b) A manager may only include physical exchange traded funds or exchange traded notes in a portfolio.

(c) A manager may not include exchange traded funds or exchange traded notes which are capable of obtaining leveraged exposure to underlying assets.

(15) The inclusion limits determined in this Chapter will apply, according to the type of instrument it is, irrespective of whether the instrument issued by an exchange traded fund is an equity instrument, a non-equity instrument or a participatory interest of a collective investment scheme.

(16) Where a manager enters into a repurchase agreement, the manager must ensure that-

(a) the securities which are the subject of such an agreement, and are to be included in a portfolio on the basis that one security has been exchanged for another, are-

(i) of equal value,

(ii) included subject to the limits and conditions of this Notice and the investment policy contained in the supplemental deed;

(b) the portfolio does not suffer any losses other than changes in value attributable to market movements; and

(c) any gains are applied for the benefit of the portfolio.

(17)(a) The manager must assess the quality of a security, and in doing so the manager must consider all applicable factors including the liquidity profile and the nature of the asset class represented by the security.

(b) In carrying out its due diligence investigation, the manager must not place inappropriate reliance on the credit rating of the security.

(18) The manager must ensure that if the inclusion of instruments in a portfolio will result in further exposure to another issuer, whose instruments are already included in the portfolio, the exposure created by the inclusion of the first-mentioned instruments is taken into account when determining the overall permissible exposure to the issuer.

- (19)(a) In order to ensure that an Islamic Compliant Instrument purchased complies with the requirements for inclusion in a Shari'ah compliant portfolio, the instrument must-
- (i) be based on the ownership of an underlying tangible asset or basket of tangible assets;
  - (ii) be negotiable; and
  - (iii) be such that title to the underlying tangible asset or basket of tangible assets passes from a portfolio to a third party within seven business days as from the date on which the relevant transaction of purchase and sale is concluded.
- (b) The sale price of the underlying tangible assets or basket of tangible assets must be fixed at the time of conclusion of the purchase and cannot be varied due to a movement in the market value of the underlying tangible assets or basket of tangible assets.
- (c) A manager that administers a portfolio in compliance with the relevant Standards of AAOIFI, in terms of which the portfolio may invest in Islamic Bonds (Sukuks) or Islamic Compliant Instruments, must, despite the limits prescribed at item 2 of Table 1, comply with the limits as set out in Table A for a period of 24 months from date of commencement of this Notice ("the initial period"), after which date the limits as set out in Table 1 shall apply:

**Table A**

Item	Categories of Securities	Per issuer/guarantor as applicable
2	Non-equity securities issued or guaranteed by a local or foreign bank which forms part of a group of companies (in terms of international accounting standards) of which the holding company is listed on an exchange:	
2.1	with a market capitalisation for the listed group holding company of more than R 20 billion;	50%
2.2	with a market capitalisation for the listed group holding company of between R2 billion and R 20 billion.	34%

- (d) Each manager must review and assess the development and growth of the Islamic financial services in South Africa on a continuous basis and, at least four months prior to the end of the initial period, furnish the Registrar with a report indicating the status of the market for Islamic financial services in South Africa.

## CHAPTER II

### MONEY MARKET PORTFOLIO

#### 4. Definitions

For the purposes of this Chapter,-

**“interest rate swap”** means a transaction for the swap of interest rates;

**“maturity date”** means the date on which an issuer or guarantor is obliged to repay the principal or capital amount and interest due on a money market instrument;

**“money market portfolio”** means a portfolio consisting only of money market instruments in the currency of the Republic;

**“Notice on Securitisation Schemes”** means the notice known as Designation of an activity not falling within the meaning of “The Business of a Bank” (Securitisation Schemes), published under Government Notice 2 in Government Gazette 30628 of 1 January 2008, or its successor;

**“weighted average duration”** means a measure of the average length of time to maturity of all of the underlying instruments in the portfolio weighted to reflect the relative holdings in each instrument, where the maturity of a floating rate instrument is the time remaining until the next interest reset to the money market rate, rather than the time remaining before the principal value of the instrument must be repaid; and

**“weighted average legal maturity”** means the weighted average of the remaining life of each instrument held in a portfolio, meaning the time remaining until the principal value is repaid in full, disregarding interest and any discounts.

#### 5. Determination of money market instruments

For the purposes of this Chapter, money market instruments which may be included in a money market portfolio, other than deposits must be transferable and acknowledging indebtedness and are defined as follows:

- (a) “**asset with a branch of a foreign institution**” means a deposit with, or any instrument of indebtedness (as defined in sub-paragraphs (b) to (n)) issued by a branch of a foreign institution, which institution is authorised in terms of the Banks Act to conduct the business of a bank by means of such branch; provided that the foreign institution must be domiciled in a country which is assigned a foreign currency sovereign rating of at least the same as the Republic;
- (b) “**banker’s acceptance**” means a bill as defined in the Bills of Exchange Act, drawn on and accepted by a bank;
- (c) “**bond**” means an acknowledgement of debt in which the issuer/guarantor undertakes to repay the debt together with interest on the maturity of the debt to the holder of the bond;
- (e) “**commercial paper**” means any negotiable acknowledgement of debt;
- (f) “**debenture**” means debenture stock, debenture bonds and any other securities of a company, whether constituting a charge on the assets of the company or not;
- (g) “**deposit**” means a deposit as defined in the Banks Act, or in the Mutual Banks Act;
- (h) “**Islamic Compliant Instrument**” means an Islamic Complaint Instrument as defined in this Notice;
- (i) “**land bank bill**” means a bill or note as defined in the Bills of Exchange Act, drawn, accepted or issued by the Land and Agricultural Bank of South Africa;
- (j) “**negotiable certificate of deposit**” means a certificate of deposit issued by a bank, and payable to order or to bearer;
- (k) “**public entity bill**” means a bill or note as defined in the Bills of Exchange Act, drawn, accepted or issued by a parastatal institution;
- (l) “**promissory note**” means a promissory note as defined in the Bills of Exchange Act;
- (m) “**trade bill**” or “**trade note**” means a bill or note as defined in the Bills

of Exchange Act, drawn, accepted or issued to provide for the payment for goods;

- (n) **"treasury bill"** means a bill drawn by the Government on the Secretary to the Treasury calling on the latter to pay a sum certain in money to a specified person or his order or to bearer, on demand or on a certain specified future date.

## 6. Inclusion limits

(1) A manager may include money market instruments, whether listed on an exchange or not, in a money market portfolio, subject to paragraph 8(7) of this Notice, and the limits as specified in the table below.

**Table 2**

Item	Categories of Money Market Instruments	Limits being the maximum percentage of the aggregate market value of the portfolio	
		Per issuer/guarantor as applicable	In aggregate for all issuers/guarantors as applicable
1	Money market instruments issued or guaranteed by:		100%
	1.1 the Government of the Republic of South Africa;	100%	100%
	1.2 any foreign government which has been assigned a foreign currency sovereign rating not lower than that of the Republic of South Africa;	100%	100%
	1.3 the South African Reserve Bank.	100%	100%
2	Money market instruments issued or guaranteed by a local or foreign bank which forms part of a group of companies (in terms of the Companies Act) of which the holding company is listed on an exchange:		100%
	2.1 with a market capitalisation for the listed group holding company of more than R 20 billion;	30%	100%
	2.2 with a market capitalisation for the listed group holding company of between R 2 billion and R 20 billion.	20%	100%

3		Money market instruments issued or guaranteed by:		100%
	3.1	a public entity under the Public Finance Management Act, 1999 (Act No. 1 of 1999);	10%	100%
	3.2	any local or foreign entity which is listed on an exchange.	10%	100%
4		Money market instruments issued or guaranteed by entities not described above where such security:		25%
	4.1	Is listed and traded on an exchange	5%	25%
	4.2	Is not listed on an exchange,	5%	10%

(2) In order to determine the market capitalisation of an internationally listed group holding company, a conversion must be done to Rand at the prevailing foreign exchange rate at the date of inclusion of the instrument and thereafter at least once every 30 days.

(3) Where, after the date of inclusion of any money market instrument in a money market portfolio, a reduced inclusion limit becomes applicable to that instrument, the manager must rectify the position within 30 days of such reduced limit becoming applicable: Provided that if the manager and the trustee are of the view that rectification would be detrimental to a particular portfolio, the manager must, within seven days of the date of becoming aware of the change in limits, submit a detailed plan setting out measures to rectify the position to the Registrar for consideration for approval.

(4) Where a manager is unable to comply with any limit prescribed in this paragraph through no fault of its own, the manager must, if the non-compliance is not rectified within 30 days of the date on which the manager becomes aware of the non-compliance, submit a detailed plan setting out measures to rectify the position to the registrar for consideration for approval.

## 7. Reduction of participatory interests

(1) For the purposes of this paragraph, a “**reduction in value**” occurs where a loss on a sale or a default of a money market instrument results in a loss greater

than the income accrued in the portfolio in an accounting period.

(2) Within 21 days after any reduction in value, a manager must, provide the registrar and every investor in the portfolio details of the reduction, in writing.

(3) A reduction in value must be reflected in the accounts and returns to be kept and rendered to the registrar by the manager in terms of section 90(1) of the Act.

(4) The auditor of a manager must, where there is a reduction, provide the registrar on a quarterly basis with details of the reduction.

## **8. General**

(1) At the time of its inclusion in a money market portfolio a money market instrument may not have a residual maturity exceeding 13 months.

(2) The weighted average legal maturity of money market instruments included in a money market portfolio, based on the value of the total money market portfolio, may not exceed 120 days.

(3) The weighted average duration of money market instruments included in a money market portfolio, based on the value of the total money market portfolio, may not exceed 90 days.

(4) The following money market instruments may not be included in a money market portfolio-

- (a) money market instruments having no fixed maturity;
- (b) money market instruments whose initial interest rates are not known at the date of inclusion;
- (c) money market instruments, including, but not limited to, credit linked notes whose return or redemption may be dependent on another instrument or another entity;
- (d) money market instruments, including, but not limited to, credit linked notes, whose return or redemption may be dependent on any event.

(5) The manager must at all times be able to calculate the return of the money market portfolio.



- (6) (a) The manager must assess the quality of a money market instrument; in making its assessment, the manager must take into account all applicable factors including the liquidity profile and the nature of the instrument.
- (b) In carrying out its due diligence investigation, the manager must not place inappropriate reliance on the credit rating of the instrument.
- (7) A manager may only include a money market instrument in a money market portfolio if the institution that issues or guarantees the money market instrument-
  - (a) has capital and reserves amounting to at least R 100 000 000 and presents and publishes its annual accounts to the public; or
  - (b) is an subsidiary within a group of companies which includes one or more listed companies, whose holding company has capital and reserves amounting to at least R 100 000 000, and presents and publishes its annual accounts to the public and where such subsidiary's accounts are included in the consolidated accounts of the group, as defined in the Companies Act, 2008, or
  - (c) is a special-purpose institution as determined in the Notice on Securitisation Schemes provided that-
    - (i) the special-purpose institution issues commercial paper in respect of a traditional securitisation scheme as defined in the Notice on Securitisation Schemes;
    - (ii) the special-purpose institution, the money market instrument issued by such institution, the market maker, the sponsor or the provider of the liquidity facility, is listed on an exchange;
    - (iii) the special-purpose institution provides sufficient disclosure to the manager to enable the manager to evaluate the default risk of the assets, held in the traditional securitisation scheme, as defined in the Notice of Securitisation Schemes; and
    - (v) no synthetic securitisation schemes as defined in the Notice on

Securitisation Schemes are included in the money market portfolio.

(8)(a) A manager may include in a money market portfolio an interest rate swap, subject to sub-paragraphs 8(1), (2) and (3) and the conditions and limits determined in Chapter V of this Notice, provided that-

- (i) the interest rate swap applies to a specific money market instrument included in the portfolio;
- (ii) the maturity date of the instrument whose rate is being swapped is not extended by the swap agreement;
- (iii) the interest rate swap is supported by an International Swaps and Derivatives Association (ISDA) agreement and a credit support annex (CSA); and
- (iv) the inclusion of such an interest rate swap is only used for efficient portfolio management with the aim of reducing risk, reducing costs or generating capital or income for a portfolio with an acceptable level of risk and to achieve the investment objective of the portfolio.

(b) The manager must ensure that an unlisted transaction for the swap of interest rates is not used to leverage or gear the portfolio, and is covered at all times.

(9) Where a manager applies a constant price to a participatory interest of a money market portfolio, the manager must-

- (a) perform a mark-to-market valuation of the money market portfolio and each participatory interest on the last business day of each month to determine the variance of the mark-to-market value with the constant price; and
- (b) report any such calculation and any adjustment to the registrar within 15 days of performing the calculation or adjustment.

(10) Where a manager applies a variable price to a participatory interest of a money market portfolio, the manager must ensure that the Net Asset Value of the

portfolio is derived from market rates of the money market instruments constituting the portfolio.

(11) A manager must implement and apply a risk management programme to each money market portfolio, including stress testing of the portfolio on a quarterly basis, taking into account-

- (a) interest rate risk;
- (b) liquidity risk;
- (c) spread risk;
- (d) credit risk; or
- (e) any combination of (a), (b), (c) and (d).

(12) A money market portfolio's assets in liquid form must amount to at least four percent of the assets in the portfolio. Where the exposure of assets in liquid form falls below four percent, immediate and appropriate steps must be taken to correct the breach.

(13) For the purposes of this Chapter, assets in liquid form exclude money market instruments or accounts with foreign banks or any participatory interests in a money market portfolio.

(14)(a) A manager that administers a portfolio in compliance with the relevant standards of AAOIFI, in terms of which the portfolio may invest in Islamic Bonds (Sukuks) or Islamic Compliant Instruments, must, despite the limits prescribed at item 2 of Table 2, comply with the limits as set out in Table B for a period of 24 months from date of commencement of this Notice ("the initial period"), after which date the limits as set out in Table 2 of paragraph 6(1) shall apply:

**Table B**

Item	Categories of Money Market Instruments	Per issuer/guarantor as applicable
2	Money market instruments issued or guaranteed by a local or foreign bank which forms part of a group of companies (in terms of international accounting	

		standards) of which the holding company is listed on an exchange:	
	2.1	with a market capitalisation for the listed group holding company of more than R 20 billion;	50%
	2.2	with a market capitalisation for the listed group holding company of between R 2 billion and R 20 billion.	34%

- (b) Each manager must review and assess the development and growth of the Islamic financial services in South Africa on a continuous basis and at least four months prior to the end of the initial period furnish the Registrar with a report indicating the status of the market for Islamic financial services in South Africa.

## CHAPTER III

### FUND OF FUNDS PORTFOLIO

#### 9. Definition

For the purposes of this Chapter, a “**fund of funds**” means a portfolio that consists of exchange rate swaps (where applicable and permitted in terms of the supplemental deed), assets in liquid form and participatory interests, whether listed on an exchange or not, in portfolios of collective investment schemes, but excluding participatory interests in collective investment schemes in participation bonds.

#### 10. Conditions and limits of inclusion

The conditions and limits subject to which participatory interests in a portfolio may be included in a fund of funds, are as follows:

- (a) The investment in participatory interests by a fund of funds must consist of participatory interests in at least two other portfolios, provided that the investment in any one portfolio may not exceed 75 percent of the market value of the fund of funds.
- (b) The limit determined in sub-paragraph 10(a) may be exceeded only if the excess is due to appreciation or depreciation of the value of the underlying participatory interests constituting the portfolio, provided that a manager may not, for as long as the excess continues, purchase any further participatory interests.
- (c) A fund of funds may invest in participatory interests issued by another fund of funds only if that fund of funds holds assets outside the Republic of at least 85 percent of the value of the fund of funds and where that fund of funds is not invested in another fund of funds or feeder fund.
- (d) A fund of funds may invest in participatory interests issued by a feeder fund only if the feeder fund holds assets outside the Republic of at

least 85 percent of the value of the feeder fund.

- (e) If a manager is unable to comply with the provisions of sub-paragraph 10(c) and (d) through no fault of its own, the manager must, if the non-compliance is not rectified within 30 days of the date on which it becomes aware of the non-compliance, submit a detailed plan, setting out measures to rectify the position, to the registrar for consideration for approval.
- (f) The investment objectives of a fund of funds must clearly specify the nature of the participatory interests comprising the portfolio.
- (g) Where a manager of a fund of funds includes in a portfolio participatory interests of the portfolios of foreign collective investment schemes referred to in sub-paragraphs 10(a), (c) or (d) ("underlying portfolios"), the underlying portfolio must-
  - (i) have been approved in terms of section 65 of the Act, and be subject to an annual review by the manager to ensure that it continues to comply with the requirements of section 65; or
  - (ii) where the underlying portfolio has not been approved in terms of 65 of the Act, be subject to a due diligence investigation conducted by the manager, to the satisfaction of the trustee, to ascertain whether the portfolio would qualify for approval in terms of the conditions under section 65(1)(c) of the Act and that the portfolio is available for investment and is not otherwise prohibited in its domicile of registration.
- (h) Where an underlying portfolio is managed, directly or by delegation, by the same manager as the manager of the portfolio investing in the underlying portfolio or by any other company with which the manager is linked by common management or control, or by a substantial direct or indirect holding, such manager or other company may not charge any form of manager's charge (including initial fees or redemption fees) on the underlying portfolio.

- (i) Where a manager of a fund of funds includes participatory interests of a foreign feeder fund in the portfolio, such feeder fund may not have invested in another feeder fund or a fund of funds.
- (j) For the purposes of this Chapter, the value of a participatory interest held by one portfolio in another must be calculated by reference to the lower of the repurchase price or the net asset value of the relevant participatory interest, at the close of business on the day before the day a repurchase price was calculated.
- (k) To the extent that the assets in a portfolio are exposed to exchange rate risk, a manager may enter into financial transactions for the exclusive purpose of hedging such exchange rate risk subject to the conditions and limits stipulated in Chapter V, provided that the portfolio's investment policy provides for it to include financial instruments for the exclusive purpose of hedging exchange rate risks.
- (l) A fund of funds may not consist solely of participatory interests in a money market portfolio.

## CHAPTER IV

### FEEDER FUND PORTFOLIO

#### 11. Definition

For the purposes of this Chapter, a “**feeder fund**” means a portfolio that, consists of exchange rate swaps (where applicable and permitted in terms of the supplemental deed), assets in liquid form and participatory interests in a single portfolio of a collective investment scheme in securities, whether listed on an exchange or not.

#### 12. Conditions and limits of inclusion

The conditions and limits subject to which participatory interests in a portfolio of a collective investment scheme in securities may be included in a feeder fund are as follows-

- (a) A feeder fund may invest in participatory interests issued by a fund of funds only where the fund of funds is domiciled and regulated outside the Republic and where the fund of funds is not invested in another fund of funds or in a feeder fund;
- (b) Where a manager is unable to comply with the provisions of subparagraph 12(a) through no fault of its own, the manager concerned must, within 30 days of the date on which it becomes aware of the non-compliance, submit a detailed plan to the registrar for consideration for approval, setting out measures to rectify the position;
- (c) Where a manager of a feeder fund includes in the feeder fund participatory interests of a foreign registered fund (“underlying portfolio”), the underlying portfolio must-
  - (i) have been approved in terms of section 65 of the Act, and be subject to an annual review by the manager to ensure that it continues to comply with the requirements of section 65; or
  - (ii) where the underlying portfolio has not been approved in terms of



65 of the Act, the manager must conduct a due diligence investigation to the satisfaction of the trustee to ascertain if such portfolio would qualify for approval in terms of the conditions under section 65(1)(c) of the Act and that such portfolio is available for investment and is not otherwise prohibited in its domicile of registration;

- (d) When an underlying portfolio is managed, directly or by delegation, by the same manager as the manager of the portfolio investing in the underlying portfolio or by any other company with which the manager is linked by common management or control, or by a substantial direct or indirect holding, such manager or other company may not charge any form of manager's charge (including initial fees or redemption fees) on the underlying portfolio;
- (e) For the purposes of this Chapter, the value of a participatory interest held by one portfolio in another must be calculated by reference to the lower of the repurchase price or the net asset value of the relevant participatory interest, at the close of business on the day before the day a repurchase price was calculated;
- (f) To the extent that assets in a portfolio are exposed to exchange rate risk, a manager may enter into financial transactions for the exclusive purpose of hedging such exchange rate risk subject to the conditions and the limits stipulated in Chapter V, provided that a portfolio's investment policy provides for it to include financial instruments for the exclusive purpose of hedging exchange rate risks;
- (g) A feeder fund may not consist only of participatory interests in a money market portfolio.

## CHAPTER V

### INCLUSION OF FINANCIAL INSTRUMENTS IN A PORTFOLIO

#### 13. Definitions

For the purposes of this Chapter-

**“call option”** means an option contract in terms of which the holder of the contract has the right, but not an obligation, to purchase the relevant underlying asset or to receive a cash settlement instead;

**“contract size”** or **“multiplier”**, in relation to a financial instrument, means the factor by which the price of an underlying asset is multiplied to arrive at the value of one contract as specified in either-

- (a) the rules of the relevant exchange on which the financial instrument is listed; or
- (b) the terms and conditions as defined in the offering document of the relevant financial instrument;

**“delta factor”**, in relation to a financial instrument, means the requirement for an exposure calculation for financial instruments as determined in accordance with-

- (a) a method prescribed by the relevant exchange for the specific financial instrument; or
- (b) the terms and conditions as defined in the offering document of the relevant financial instrument;

**“delta sign”**, in relation to a financial instrument, means the mathematical sign of the exposure of the financial instrument, determined by the sign of the delta factor, which can be either positive or negative, determined in accordance with-

- (a) the delta factor calculation prescribed by the relevant exchange for the specific financial instrument; or
- (b) the terms and conditions as defined in the offering document of the relevant financial instrument;

**“effective exposure”**, in relation to a listed financial instrument, means the exposure as calculated in paragraph 18 of this Notice;

**“listed financial instrument”** means an instrument as defined in paragraph 2(1)(b) of Chapter I of this Notice, which is listed and dealt on an exchange with full membership of the World Federation of Exchanges;

**“put option”** means an option contract in terms of which the holder of the contract has the right, but not an obligation, to sell the relevant underlying asset or to receive a cash settlement instead;

**“transaction sign”**, in relation to a financial instrument, means the transaction direction, whether buying or selling, of a financial transaction, as calculated in accordance with paragraph 18(4) of this Notice;

**“underlying asset”**, in relation to a listed or unlisted financial instrument, means-

- (a) any security;
- (b) an index as determined by an exchange;
- (c) a group of securities which are the subject matter of the financial instrument, whether such group of securities is represented by an index or not;
- (d) a currency rate; or
- (e) an interest rate;

**“unlisted financial instrument”** means an instrument as defined in paragraph 2(1)(c) of Chapter I of this Notice.

**14. Inclusion of financial instruments in a portfolio**

(1) A manager may include listed and unlisted financial instruments in a portfolio, subject to this Notice, the deed and supplemental deed.

(2) In the application of sub-paragraph 14(1) a manager may only write option contracts in compliance with the conditions set out in paragraph 16 of this Notice, or sell option contracts, which have previously been bought.

**15. Exposure limits for listed financial instruments**

(1) The sum of the effective exposures of listed financial instruments to be maintained in terms of this Chapter, together with the market value of all the physical underlying assets in the portfolio, may not exceed 100 percent of the market value of the portfolio.

(2) The effective exposure to listed financial instruments based on any specific underlying asset, which is not an index or basket of securities, together with the market value of any physical holding of that specific underlying asset, may not exceed the limitations laid down in paragraph 3(1) or Table 1, as applicable, of Chapter I of this Notice.

(3) For the purposes of this paragraph, the provisions of paragraph 3(1) (b) or Table 1, to the extent applicable, of Chapter I of this Notice in respect of breaches, which are due to appreciations or depreciations of the market value of the relevant securities, or an amalgamation, cession, transfer or take-over in terms of section 99 of the Act, apply *with* the necessary changes.

**16. Maintaining of certain assets in a portfolio of listed financial instruments**

(1) A manager which, in accordance with the provisions of this Notice, -

- (a) sells future contracts, call options or call warrants, or buys put options or put warrants, based on specific underlying assets which are not indices or a basket of securities, must maintain an exposure to the market value of such underlying assets which is at least equal to the effective exposures of the mentioned underlying assets;

- (b) sells futures contracts, call options or call warrants, or buys put options or put warrants, based on index futures or a basket of securities, must maintain an exposure to the same or similar underlying assets or other financial instruments with positive exposures to the same or similar underlying assets in the relevant portfolio, which is at least equal to the effective exposure of such listed financial instruments;
- (c) buys futures contracts, call options or call warrants, or sells put options or put warrants based on any underlying asset, must maintain an exposure to assets in liquid form, which is at least equal to the effective exposure of such listed financial instruments;
- (d) sells put options or put warrants, may maintain a bought put option or bought put warrant in place of assets in liquid form as required in sub-paragraph (c) only if the strike price of the bought put option or bought put warrant is not lower than the price of the sold put option or put warrant;
- (e) sells call options or call warrants, may maintain a bought call option or bought call warrant in place of underlying assets as required in sub-paragraph (a) or (b) only if the strike price of the bought call options or call warrants is lower than the price of the sold call option or call warrant;
- (f) sells or buys multiple options or multiple warrants or futures based on the same underlying assets which are not indices or a basket of securities with positive net effective exposure, must maintain assets in liquid form as prescribed in sub-paragraph (c);
- (g) sells or buys multiple options or multiple warrants or futures based on index futures or a basket of securities with positive net effective exposure, must maintain assets in liquid form as prescribed in sub-paragraph (c);
- (h) sells or buys multiple options or multiple warrants or futures or basket of securities based on the same or similar underlying asset with

negative net effective exposure, must maintain assets as prescribed in sub-paragraph (a) or (b) as applicable;

- (i) invests in currency futures, must maintain an exposure to assets in liquid form which is at least equal to the effective exposure of such currency futures.

(2) The duration exposure to non-equity securities may be hedged and netted with a financial instrument whose underlying asset is a government bond, a basket of government bonds or a government bond index, a corporate bond, a basket of corporate bonds or a corporate bond index, Johannesburg Interbank Agreed Rate (JIBAR) swap rate, inflation rate, the repurchase rate, or any other rate that is an index. However, any consequential or residual spread exposure as a result of the netting must be accounted for and disclosed.

#### **17. Maintaining of certain assets in a portfolio for unlisted financial instruments**

(1) A manager, which in accordance with the provisions of this Notice, includes in a portfolio an unlisted financial instrument, must ensure at all times that-

- (a) the net negative mark-to-market exposure of the unlisted financial instrument is at all times covered by assets in liquid form;
- (b) in the case of net positive mark-to-market exposure of the unlisted financial instruments, the exposure be aggregated to all existing physical underlying assets and effective exposures to the same issuer/guarantor and the aggregate must at all times remain within the limits as set out in Table 1 of Chapter I of this Notice.

(2) Netting is only permissible with respect to the same or similar unlisted financial instruments with the same issuer/guarantor, provided that the manager is able to legally enforce netting arrangements with that issuer/guarantor.

(3) The provisions of paragraph 16(2) will similarly apply with the necessary changes to unlisted financial instruments.

(4) The manager must ensure that unlisted financial instruments are not used to leverage or gear the portfolio and that the unlisted financial instruments are covered at all times.

#### **18. Calculation of effective exposure for listed financial instruments**

(1) The exposure of a futures contract or index tracking certificate of an underlying asset, group of underlying assets or an index must be calculated as the product of-

- (a) the number of contracts;
- (b) the relevant contract size; and
- (c) the current market value of the underlying asset, group of underlying assets or index.

(2) The exposure of an option contract or a warrant to an underlying asset, group of underlying assets, index or index future, must be calculated as the product of-

- (a) the number of option or warrant contracts;
- (b) the relevant contract size;
- (c) the current market value of one relevant underlying asset, one group of the underlying assets, an index or index future; and
- (d) the delta factor.

(3) The effective exposure to any listed financial instrument must be calculated as the product of-

- (a) the exposure, calculated in accordance with paragraph 18(1) or (2) of this Notice; and
- (b) the transaction sign.

(4) The transaction sign is positive for any listed financial instrument purchased and negative for any listed financial instrument sold.

(5) The net effective exposure to listed financial instruments on the same or similar underlying asset is the sum of the effective exposures of all the listed financial instruments to the same or similar underlying asset.

**19. Assets in liquid form associated with listed and unlisted financial instruments to be maintained in terms of this Chapter**

(1) A manager must at all times ensure that a portfolio has sufficient assets in liquid form in aggregate to comply with the requirements of paragraphs 16(c), 16(f), 16(g), 16(h), 16(i) and 17 of this Notice.

(2) The amount of assets in liquid form may be adjusted by any amount held in a margin account of an exchange as cover but may not include borrowed funds.

**20. Report by the manager**

After the inclusion of a financial instrument in a portfolio, and while a financial instrument remains included in a portfolio, a manager must furnish the registrar within 30 days after the last business day of each quarter with a report substantially conforming to Annexure A to this Notice.



## CHAPTER VI

### FOREIGN EQUITY AND FOREIGN NON-EQUITY SECURITIES

#### 21. Guidelines for due diligence investigation

When considering inclusion of foreign equity or foreign non-equity securities in a portfolio in accordance with section 45 of the Act, a manager must conduct a due diligence investigation in accordance with the following guidelines-

**(1) In respect of an exchange on which foreign equity and foreign non-equity securities are listed and traded:**

**(a) Liquidity and repatriation of funds**

In considering a foreign exchange, the following must be taken into account:

- (i) the overall liquidity of the exchange;
- (ii) whether securities or derivatives can be bought and sold in a reasonable time, at best execution and in adequate amounts; and
- (iii) the procedures and restrictions, if any, on the repatriation of funds to the Republic.

**(b) Regulation**

(i) The exchange must be subject to supervision by an authority, which must be a statutory body, an agency of a national Government, state department of such Government or another body designated for that purpose by one of said authorities.

(ii) In addition, the following factors must be taken into account:

(aa) The degree to which members of the exchange are subject to formal supervision by the exchange or another body, and in particular whether compliance with capital adequacy requirements by members is supervised;

(bb) the involvement of a central securities depository and level of immobilisation or dematerialisation of scrip;

(cc) the existence of a form of contract guarantee, e.g. a buying-in obligation by the exchange to ensure that its members' transactions are settled;

(dd) the powers of the exchange or the supervising body to intervene in members' business in the event of misconduct and financial difficulties, including the power not to approve applications for membership, terminate membership and delist a security;

(ee) the initial listing standards and on-going supervision of securities traded on the exchange, including the publication of prospectuses and audited annual financial statements;

(ff) the everyday availability of current information about securities, derivatives, quotations, transactions, prices and spreads;

(gg) requirements for the issue of contract notes or their equivalents;

(hh) whether there is a requirement for trade reporting of the securities or derivatives or both to the exchange or other supervisory body;

(ii) whether the clearing and settlement arrangements normally used for transactions on the exchange are prompt and secure;

(jj) the risk of loss in the event of insolvency of a member of the exchange;

(kk) the manner in which the exchange investigates and deals with complaints;

(ll) whether any type of guarantee fund is maintained to protect investors in respect of liabilities arising prior to the default of a member or a fidelity insurance policy exists as a front-line protection for member firms particularly in so far as employee fidelity is concerned.

(c) **Regular operation**

(i) The exchange must have regular trading hours during which the listed foreign equity and non-equity securities may be traded.

(ii) The following additional considerations must be taken into account-

(aa) the availability and timing of price and volume information and the manner in which it is distributed;

(bb) in respect of listed foreign equity and non-equity securities the degree to which, and the speed at which, companies with listed foreign non-equity securities on the exchange must release price sensitive information, and the medium through which that information is distributed.

(d) **Recognised exchange**

The exchange must be recognised or registered as a market or exchange or self-regulatory organisation by an authority which must be a statutory body, an agency of a national government, a state department of such government or another body designated for that purpose by one of the said authorities.

**(e) Open to the public**

Investments listed or admitted to dealing on the exchange must be freely available for trading by the public directly, or through members of the exchange, during normal trading hours.

The extent to which overseas investors are permitted to hold securities listed and traded on the exchange must be taken into account.

**(2) In respect of foreign non-equity securities which are not listed on an exchange:**

**(a) Liquidity and repatriation of funds**

The following must be taken into account

- (i) overall liquidity in respect of unlisted foreign non-equity securities
- (ii) whether the unlisted foreign non-equity securities can be bought and sold in a reasonable time, at best execution and in adequate amounts;
- (iii) and the procedures and restrictions, if any, on the repatriation of funds to the Republic.

**(b) Nature of the foreign non-equity securities**

The manager must consider the relative and/or inherent risk levels of one security type compared to another and the appropriateness for its inclusion in a portfolio, for example secured debt measured against non-secured debt, or government guaranteed debt measured against debt not guaranteed by a government.

**(c) Credit risk profile**

The manager must consider the likelihood or risk of loss of principal amounts or loss of a financial reward, stemming from an issuer's failure to repay a loan or otherwise meet a contractual obligation and the appropriateness for inclusion in a portfolio, for example measuring risk against reward considerations, and the credit worthiness of an issuer.

**(d) Maturity profile**

The manager must consider the maturity profile of an issuer to assess the issuer's ability to borrow and its liquidity position. Consequently the manager must consider the appropriateness of the inclusion of the particular foreign non-equity security of the issuer in a portfolio.

**(e) Duration profile**

The manager must consider the sensitivity of the price (the value of principal amounts) of foreign non-equity securities to a change in interest rates. Consequently, the manager must determine the appropriateness of the inclusion of the particular foreign non-equity security in a portfolio.

**(f) Currency risk profile**

The manager must consider the risk that arises from the change in price of one foreign currency against the South African Rand and other major currencies. Consequently, the manager must determine the appropriateness of the inclusion of the particular foreign non-equity security denominated in a specific foreign currency in a portfolio.

**(g) Macro and micro economic factors**

**(i) Domestic political situation**

The manager must reasonably consider all factors that contribute to a stable political environment that would be conducive to a stable investment environment.

**(ii) Economic growth prospects**

The manager must consider the economic growth prospects of a foreign country in order to assess the merits and prospects of investing in foreign non-equity securities issued by entities in a particular foreign country.

**(iii) Monetary and fiscal policies**

The manager must consider the monetary and fiscal policies of a foreign country in order to assess whether it would be, and is likely to remain conducive to supporting a stable environment for investment.

*(iv) Open to foreign investors*

The extent to which foreign investors are permitted to hold foreign non-equity securities must be taken into account.

## CHAPTER VII

### GENERAL

#### 22. Disclosure of fees

For the purposes of paragraphs 3(6), 10(c) and (d) and 12(a) of this Notice, when a portfolio invests in participatory interests of another portfolio, the manager must disclose to potential investors, on the application form, that the fee structure is higher as well as the anticipated aggregate of the fees levied by itself and by the other portfolio.

#### 23. Consequences of repurchases

(1) Where non-compliance with a condition, limit or requirement set in this Notice occurs because the manager has met its obligation to satisfy offers to repurchase participatory interests, the manager:

- (a) where a limit determined in this Notice is exceeded, may not for as long as such breach continues, purchase any further securities or instruments issued by that entity; or
- (b) where certain assets are not maintained in a portfolio as required by paragraphs 16,17 and 19 of this Notice, must take immediate steps to rectify such breach.

(2) Where a breach as set out in paragraph 23(1) is not rectified within 30 days of the date on which it occurred, the manager must submit a detailed plan of rectification to the registrar.

#### 24. Operational trust account

Any amount deposited, transferred or held in an account determined in section 105 of the Act, operated as an account for funds within a portfolio, must be applied to any limit prescribed in this Notice.

**25. Transitional measures**

If, after the date of this Notice coming into effect, any limits prescribed in paragraphs 3(9) and 6(1) are exceeded but the portfolio would have been in compliance with the limits prescribed in Board Notice 80 of 2012, the manager may hold the securities exceeding the limits prescribed in this Notice to maturity and must furnish the registrar with a report on a quarterly basis listing the securities so held and indicating the remaining term to maturity.

**26. Repeal and commencement**

(1) The following notices and provisions are repealed from the date this notice comes into effect:

- (a) Board Notice 80 of 2012, as published in *Government Gazette* No. 35321 of 10 May 2012;
- (b) Notice 57 of 2014, as published in *Government Gazette* No 37697 of 30 May 2014;
- (c) Paragraph 14 of General Notice 569 of 28 February 2003; and
- (d) Paragraph 1 of Notice 2073 of 1 August 2003.

(2) This Notice comes into effect on date of publication.

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**ANNEXURE A****REPORT OF COMPLIANCE OFFICER OF MANAGER IN RESPECT OF SYSTEM OF INTERNAL CONTROL**

We, ..... (NAME), CHIEF EXECUTIVE OFFICER/MANAGING DIRECTOR, and  
 ..... (NAME), COMPLIANCE OFFICER, have examined the system of internal control regarding  
 ..... (NAME OF PORTFOLIO), designed to ensure compliance by ..... (NAME OF  
 MANAGER) with Chapter V of Notice ... of.

We hereby certify that –

- (a) the system of internal control over compliance with Chapter V is  
 suitability designed to provide reasonable assurance that the controls have prevented or detected non-compliance with  
 Chapter V;
- (b) the system of internal control designed to ensure compliance with Chapter V, operated as designed throughout the quarter  
 ended .....

We draw attention to the following instances of non-compliance with Chapter V which were/were not subsequently corrected.

.....

(Signature)

(Signature)

Address

Date