

# **CompliancePlus Consulting**

**Compliance Consulting • Funds Consulting  
Regulatory Consulting • Compliance Training**

## **Submission to Unit Trusts and Mutual Funds Consultation Paper issued by Securities and Futures Commission**

July 2014

**For enquiries on this submission, please contact \_\_\_\_\_ at  
\_\_\_\_\_ CompliancePlus Consulting Limited understands  
and agrees that our name and/or submission may be published to the public.**

# CompliancePlus Consulting

Compliance Consulting • Funds Consulting  
Regulatory Consulting • Compliance Training

## Introduction

The SFC has issued the Consultation paper on proposals to amend the Code on Unit Trusts and Mutual Funds (“**Code**”) requirements in relation to the publication of offer and redemption prices (“**Prices**”) or net asset values (“**NAVs**”), and notices of dealing suspension of SFC-authorized collective investment schemes under the Code (“**Schemes**”)

This submission is made in response to the SFC's Consultation Paper dated June 2014 and our comments and suggestions are set out below.

## Scope of the Consultation Paper

### Consultation Questions

#### **Question 1: Do you agree that Schemes should be allowed to make public their Prices or NAVs in any appropriate manner?**

We are in favour of the proposed amendment that gives greater flexibility to choosing the means of dissemination of Prices and NAVs for the Schemes. Our view is that the relaxed requirement reflects a principle-based disclosure approach that could allow the industry to choose an appropriate means of dissemination with regard to their own operations and clients' needs.

As expected under the proposed amendment, the industry can benefit from a lower administrative cost by leveraging on the advancement of information technology as well as the shifting patterns on information channels. The shift to alternative communication channels would reduce complexity and lower compliance costs. Removal of publication requirement that mandates the use of communication channels is also consistent with the increasingly internet-based market practice e.g. the abundant online sources which the investors frequently made use of.

We are of the opinion that the relaxed amendment would not compromise the free access of pricing information of investors. It is anticipated that with a lower compliance cost spent on traditional media, the resources can be better devoted to

# CompliancePlus Consulting

Compliance Consulting • Funds Consulting  
Regulatory Consulting • Compliance Training

upgrading alternative dissemination platforms. In our view, SFC has rightly pointed to the baseline requirement in the Consultation paper that the dedicated channel of dissemination shall be one that is specified in the offering document. Such requirement shall be able to safeguard investors' right to essential information for making an informed investment decision.

We share the view of the Commission not to mandate any means of publication under proposed amendment to 11.7 of the Code in light of the possible alternative platforms. The greater flexibility is of essence to the amendment which is also in line with guidelines from overseas jurisdictions.

*In determining the appropriate manner of making public Prices or NAVs, management companies of Schemes should ensure that (i) holders or prospective investors can have free access to such information; (ii) disclosure is consistent with the manner and frequency at which the units are dealt in; and (iii) dedicated channel of dissemination is specified in the offering document.*

## **Question 2: Do you agree that Schemes should be required to make public their Prices or NAVs on every dealing day?**

We welcome the proposed amendment and see the proposal as both desirable and feasible in two fold.

First, the mandatory requirement of publishing Prices or NAVs on every dealing day would place investors in a better position to acquire liquidity-related portfolio information. We share the view of SFC that such portfolio information is crucial for subscriptions or redemption decisions. We agree therefore with the proposed frequency of disclosure requirement under 11.7 of the Code to protect investors' right to essential information. This is especially so where the portfolio information is volatile.

Second, the proposed amendment do not impose great disclosure burden on the Schemes. On top of the current computation and report of NAV after the stock markets each day, the Schemes can make use of existing communication channels to make available the NAV information. As mentioned, in conjunction with the proposed introduction of relaxation on means of dissemination of Prices and NAVs, the burden

# CompliancePlus Consulting

Compliance Consulting • Funds Consulting  
Regulatory Consulting • Compliance Training

of the proposed amendment to the frequency of Prices and NAV disclosure is minimal.

## **Question 3: Do you agree that Schemes should be allowed to publish notices of dealing suspension in any appropriate manner?**

Similar to our view to question 1 above, we agree with the proposed amendment to relax the requirement on means of publishing dealing suspension and see the greater autonomy in choosing means of publication as beneficial to the industry.

## **Question 4: Do you agree that the proposed implementation timeline is acceptable and practicable, taking into account the needs and circumstances of various stakeholders?**

We refer to the 6-month transitional period that will apply to existing Schemes as put forth by SFC in the Consultation paper and we agree with such implementation timeline.

First, as regards existing Schemes, there shall be no practical difficulties for the Schemes to adapt to the disclosure requirement (on the basis of every dealing day). As mentioned above, not much operational upgrade is required from the Schemes. 6-month period shall allow resources be devoted to complying with the disclosure requirements.

Second, we note that the two more flexible proposed amendments in question 1 and 3 pay due regard to the more interactive client communication trend and therefore, 6-month transitional period would be a reasonable timeframe for smooth transition.

## **Conclusion**

We agree in principle with the three proposed amendments and the implementation timeline of the Consultation paper. We appreciate the philosophy of SFC behind relaxing the requirements on means of publishing Prices or NAVs and Dealing Suspension to reflect market practices and on the other hand, reinforce investors' rights to critical investment information by mandating the frequency of publishing

## **CompliancePlus Consulting**

**Compliance Consulting • Funds Consulting  
Regulatory Consulting • Compliance Training**

dealing suspension. We hope the proposed amendments could facilitate prompt and efficient communication between the Schemes and the investors regarding portfolio information.

END