



## SUMMARY OF PRIVATE SECTOR CONSULTATION AND FEEDBACK STATEMENT

### Rule on Calculation of Asset Values – Regulated Mutual Funds

Rule	Comments from the Private Sector	Authority's Response	Consequent Amendments to the Proposed Measure
<b>GENERAL COMMENTS</b>			
	We would encourage this Rule to be based on the principles set out in established financial reporting frameworks and avoid prescriptive specifics that may cause conflicts within the rule. Generally, principle-based rules are typically more desirable as they can be applied to scenarios that may not be contemplated in the construction of a prescriptive rule.	The Authority has noted this comment, however wishes to advise that the Rules as drafted are in accordance with European Criteria.	No changes.
<b>SECTION-SPECIFIC COMMENTS</b>			
<b>1.1</b>  <b>Statutory Authority</b>	<b>Typographical error noted by industry:</b>  These Rules are issued pursuant to s. 34 of the Monetary Authority Law ( <del>2018</del> 2020 Revision) ("MAL"), ...	Typographical error is noted.	Amended.
<b>2.1</b>  <b>Objective</b>	<b>Industry Commented:</b>  Possibly forgotten word Net which would make it Net Asset Values and not Asset Values.	The Authority has revised section 2.1 to read:  "To set out the Authority's rules on the Calculation of <b>Net Asset Values</b> for Regulated Mutual Funds (each subparagraph of paragraph 5 below referred to as a "Rule," and collectively, the "Rules"), pursuant to the MAL.	Amended.

<p><b>3</b></p> <p><b>Scope</b></p>	<p><b>Industry Commented:</b></p> <p>Please include a provision in Section 3 of Appendix A giving existing funds time to comply with the New Valuation Rule.</p> <p>The 2008 Rule relating to Calculation of Asset Values - Licenced Funds (the "<b>2008 Valuation Rule</b>") appears to grant some sort of transition period to funds existing at the time the 2008 Valuation Rule came into force. Since the New Valuation Rule applies to all existing regulated mutual funds, including section 4(3) funds, please include a provision in Section 3 of the New Valuation Rule giving existing funds time to comply with the New Valuation Rule. In light of the ability of CIMA to enforce breaches of the New Valuation Rule, and because compliance with the New Valuation Rule might require changes in certain operations of a fund, a transition period is critical.</p>	<p>The MFL Laws and Regulations do not prescribe a transition period for the Rules.</p>	<p>No changes.</p>
	<p><b>Industry Commented:</b></p> <p>Please include a provision in Section 3 of Appendix A which expressly confirms whether Japanese Regulation funds are out of scope of the New Valuation Rule.</p>	<p>The requirement is applicable to all types of funds, including Japan Retail Funds.</p>	<p>No changes.</p>

	<p><b>Industry Commented:</b></p> <p>Licensed funds subject to the Japanese Regulations were excluded from having to comply with the 2008 Valuation Rule. Are licensed and/or other regulated mutual funds complying with the Japanese Regulations exempt from having to comply with the New Valuation Rule?</p>	<p>The funds should provide the information available at the time of registration, filing new supplements/additional information as/when changes are made.</p>	
<p><b>3.1</b></p> <p>These Rules apply to all funds licensed or registered under s. 4 of the Mutual Funds Law (2019 Revision) (the "MFL").</p>	<p><b>Typographical error noted by industry:</b></p> <p>These Rules apply to all funds licensed or registered under s. 4 of the Mutual Funds Law (2019<del>2019</del>2020 Revision) (the "MFL").</p>	<p>Typographical error is noted.</p>	<p>Amended.</p>
<p><b>4.2 Definitions</b></p>	<p><b>Industry commented:</b></p> <p>The requirement in 5.2 to base the NAV calculation on a financial reporting framework addresses the recognition of assets and liabilities makes it unnecessary to specify partial lists of assets and liabilities.</p> <p>Further, partial lists of assets and liabilities may be taken as an indication other items may be improperly excluded and cause improper application.</p> <p>If descriptive text is desirable to indicated a completeness requirement, total assets might be described as "<i>all present economic resources controlled by the fund as a result of past events</i>"; and a liability as "<i>all present obligation of the fund to transfer an economic resource as a result of past events</i>"</p> <p><b>Suggested wording:</b></p> <p><i>NAV (Net Asset Value) means the value of a Fund's total assets (including accrued interest, dividends and other receivables), minus the value of the Fund's total liabilities (including as accrued expenses (including fees) and other</i></p>	<p>Section 4.2 is not a partial list. It draws the reader's attention to particular assets and liabilities. It is in harmony with 5.2.</p>	<p>No changes.</p>

	<i>payables).</i>		
<p><b>4.5</b></p> <p>Service Provider includes a Fund's administrator, auditor, custodian, investment manager / advisor, Operator, prime broker, promoter, or registrar, or any of their delegates with responsibility for the Fund's portfolio or operations.</p>	<p><b>Industry commented:</b></p> <p>Valuator, valuation advisor or appraiser should be included.</p>	<p>The term "any of their delegates with responsibility for the Funds portfolio or operations" captures this.</p>	<p>No changes.</p>
<p><b>4.6</b></p> <p>Market Price means the most recent price at which significant securities transactions have been concluded on a public market within the prior 30 days, or the best price available from a market maker.</p>	<p><b>Industry commented:</b></p> <p>What constitutes significant securities transactions could easily be interpreted in different ways.</p> <p>As defined and used in the rule, it causes conflicts with the requirements of many financial reporting frameworks, and consequently the requirement of 5.2. Note that the frameworks in 5.2 have rules concerning priority being given to the use of observable market data over unobservable valuation inputs that address the objective of the definition in a more comprehensive manner.</p> <p>Further, it may allow for the use of stale pricing, such pricing may not represent fair value, as such prices are unlikely to take into account of all the facts that would be considered by market participants if those participants engaged in a transaction on an arm's length transaction on the NAV calculation date. Consequently, it has the potential to cause the NAV not to fairly represent fair value at the NAV calculation date and thus detrimental to investors.</p>	<p>The Authority accepts the proposed wording.</p>	<p>Amended.</p>

	<p><b>Suggested wording:</b>  <i>Market Price means the most recent price at which significant securities transactions have been concluded on a public market within the prior 30 days, or the best price available from a market maker. price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal or most advantageous market at the NAV calculation date that is directly observable and in a market accessible by the fund.</i></p>		
<p><b>4.7</b></p> <p>Hard-to-Value Securities means assets for which there are no readily available market values to be transacted between knowledgeable and willing parties in an arm’s length transaction, or with no registered turnover in the prior 30 days, and may include illiquid holdings, fixed-income securities, restricted securities and derivatives.</p>	<p><b>Industry commented:</b></p> <p>The current text omits the fair value measurement of liabilities. Also, as defined it is not asymmetrical with the Market Price definition and thus scenarios exists that fall into neither category.</p> <p><b>Suggested wording:</b>  <i>Hard-to-Value Securities means an asset <u>or liability</u> for which there is no Market Price which is required to be measured at fair value pursuant to 5.2 <del>there are no readily available market values to be transacted between knowledgeable and willing parties in an arm’s length transaction, or with no registered turnover in the prior 30 days, and may include illiquid holdings, fixed-income securities, restricted securities and derivatives.</del></i></p>	<p>The Authority accepts the proposed wording.</p>	<p>Amended.</p>
<p><b>5</b></p> <p><b>NAV Calculation Policy</b></p> <p>5.1. A Fund must establish,</p>	<p><b>Industry commented:</b></p> <p>Fair, reliable, of high quality, and verifiable are rather subjective.</p> <p>A NAV calculation policy should have the objective of faithfully representing the NAV, while acknowledging the pervasive</p>	<p>The Authority accepts the proposed wording.</p>	<p>Amended</p>

<p>implement, and maintain a NAV Calculation Policy that ensures a Fund's NAV is fair, reliable, of high quality, and verifiable.</p>	<p>constraint of the cost of achieving faithful representation, and that costs being justified by the benefits derived.</p> <p>Faithful representation of financial phenomena is normally characterised by financial reporting standard setters as complete, neutral and free from error. Neutral may be a better objective than fair, neutrality focuses on a NAV that is not slanted or otherwise manipulated.</p> <p>"Reliable" seems to focus on consistency of quality, it may be more appropriate that the policy have the objective quality ie a NAV that is free from error.</p> <p>The objective High quality would be met though the NAV being free from error, however, 'high' should be given more objective measurement criteria that acknowledge the the pervasive constraint of cost that high does not mean perfect and there is tolerable of a degree of error is acceptable if that does not materially affect the investors.</p> <p><b>Suggested Policy Objective:</b> A Fund must establish, implement, and maintain a NAV Calculation Policy that ensures a Fund's NAV is fair, <del>reliable,</del> <del>of high quality,</del> complete, neutral and free from material error, and <u>is</u> verifiable</p>		
<p><b>5.2</b></p> <p>The NAV Calculation Policy shall be based on the International Financial Reporting Standards, or generally accepted accounting principles of the United States of America, Japan or Switzerland.</p>	<p><b>Industry commented:</b></p> <p>Please expand Rule 5.2 of Appendix A to refer to other non-high risk jurisdictions.</p> <p><b>Suggested wording:</b></p> <p>The NAV Calculation Policy shall be based on the International Financial Reporting Standards, or generally accepted accounting principles of the United States of America, Japan, Switzerland <b>or another non-high risk jurisdiction</b></p> <p><b>Industry commented:</b></p> <p>The scope of is narrower than that set out in the law. While it may be desirable to narrow the scope to those which better serve and protect investors, a wider scope of frameworks should be included. It should at least include frameworks that are based more or less entirely on IFRS, for example, Hong Kong, New Zealand, Singapore, Australia, Canadian financial reporting standards and may in certain circumstances may</p>	<p>The Authority accepts the proposed wording.</p> <p>The Authority has amended the wording to read as follows:</p> <p>The NAV Calculation Policy shall be based on the International Financial Reporting Standards, or generally accepted</p>	<p>Amended.</p> <p>Amended.</p>

	<p>be mandated frameworks by other regulators (eg HK SFC) to which a fund is subject. There are other Non-IFRS based standards that are commonly used by funds should also be considered, for example, Luxembourg GAAP. Consideration should be given to certain industry practices that are not permitted by most accounting frameworks, in particular, the practice of spreading the organisation costs at startup fund over a number of years rather than on day 1 of the fund's operation. The logic being that it would be unfair for the initial investor to bear all such costs. This practice however is prohibited under the majority of reporting frameworks which do not permit the deferral of such expenses by recording an asset and impacting the reported NAV. An exclusion for this practice may be desirable and such a policy by the Fund ought to be disclosed in the offering document of the fund.</p> <p><b>Suggested wording:</b>  The NAV Calculation Policy shall be based on the International Financial Reporting Standards (<u>including International Financial Reporting Standards as adopted by the EU</u>), or generally accepted accounting principles <u>in</u> of the United States of America, Japan, <u>Luxembourg, Hong Kong, Singapore, Canada, Australia, New Zealand</u> or Switzerland. <u>A Fund may depart from these principles with respect to the spreading of the initial fund set up costs of the fund over a number of NAV calculation periods, provided that this fact and the nature of the expenses being spread is explicitly disclosed in the offering document.</u></p>	<p>accounting principles of the United States of America, Japan, Switzerland <b>or another non-high risk jurisdiction.</b></p>	
<p><b>5.3</b></p> <p>The methodology used to perform the NAV calculation must be consistent with the accounting principles or reporting standards used to prepare the Fund's</p>	<p><b>Industry commented:</b></p> <p>It seems that valuation standards ought to be included such as those promulgated by the International Valuation Standards Council.</p> <p><b>Suggested variation to allow for the comment in 5.2:</b>  <u>Except as set out in 5.2 with respect to initial set up costs spread over accounting periods in the NAV calculation, the methodology used to perform the NAV calculation must be materially consistent with the accounting principles or reporting standards used to prepare the Fund's audited</u></p>	<p>The wording as been amended to read as follows:</p> <p>The NAV Calculation Policy shall be based on the International Financial Reporting Standards, or generally accepted accounting principles of the United States of America,</p>	<p>Amended</p>

audited financial statements.	<i>financial statements.</i>	Japan, Switzerland or another non-high risk jurisdiction.	
<p><b>5.4</b></p> <p>The NAV Calculation Policy must:</p>	<p><b>Industry commented:</b></p> <p>We recommend reducing the amount of information required to be disclosed in the NAV Calculation Policy in the fund's offering document.</p>	<p>The Authority believes that the rules as constructed to provide valuable protection to investors.</p>	<p>No changes.</p>
<p><b>5.4.1</b></p> <p>Be written and disclosed in the Fund's offering document;</p>	<p><b>Industry commented:</b></p> <p>Rule 5.4.1 provides that the NAV Calculation Policy must be written and disclosed in the Fund's offering document. It then goes on to prescribe certain information which must be contained in the NAV Calculation Policy. As an overarching comment, it is felt that Rules 5.4.2 to 5.4.8 require the inclusion of far more information than one would expect to see disclosed in an offering document.</p>	<p>The Rules are drafted in alignment with the European Union's criteria and were found to be sufficient for its purpose.</p>	<p>No changes.</p>
<p><b>5.4.2</b></p> <p>Describe the Fund's practical and workable pricing and valuation policies, practices, and procedures;</p>	<p><b>Industry commented:</b></p> <p>This statement is not required.</p>	<p>No rationale provides as to why statement should be deleted.</p>	<p>No changes.</p>



<p><b>5.4.8</b></p> <p>Incorporate internal controls that are appropriate to the size, complexity, and nature of the Fund's operations.</p>	<p><b>Industry commented:</b></p> <p>A Fund's investment manager / advisor or Operators may calculate or assist in the calculation of the Fund's NAV only if this fact is explicitly detailed in the Fund's offering document, <del>together with an explanation why another Service Provider could not calculate the Fund's NAV.</del></p>	<p>The Authority believes that the rules as constructed to provide valuable protection to investors.</p>	<p>No changes.</p>
<p><b>5.4.3</b></p> <p>The NAV Calculation Policy must require the calculation of the Fund's NAV regularly, at least quarterly;</p>	<p><b>Industry commented:</b></p> <p>Please consider whether requiring a blanket minimum of quarterly NAV calculations is appropriate.</p> <p>Rule 5.4.3 currently requires the calculation of the fund's NAV regularly, and at least quarterly. This could require a change to how funds run operationally. We believe that a level of discretion should be included in Rule 5.4.2 of Appendix A to take account of the type of assets a fund has invested in and the timing of subscriptions and redemptions under the terms of that fund.</p>	<p>The Authority is of the view that the quarterly NAV calculation requirement is consistent with the practice of most funds. This requirement has not changed fromm the 2008 rule. .</p>	<p>No changes.</p>
<p><b>5.4.5</b></p> <p>The NAV Calculation Policy must state the accounting principles that will be followed;</p>	<p><b>Industry commented:</b></p> <p>We note this is not consistent with the equivalent for private funds and see no rational reason for the inconsistency.</p>	<p>The Authority accepts the proposed wording.</p> <p>Section 5.4.5 will be amended as follows:</p> <p>The NAV Calculation Policy must state the accounting principles or reporting standards that will be followed;</p>	<p>Amended.</p>
<p><b>5.5</b></p> <p>Other than for Hard-To-Value Securities, The NAV Calculation</p>	<p><b>Industry commented:</b></p> <p>The requirement of 5.2 makes this requirement unnecessary.</p> <p>The identified frameworks in 5.2 have rules and guidance on the priority of inputs used in a fair value determination.</p>	<p>The Authority accepts the proposed wording.</p>	<p>Amended.</p>

<p>Policy must require the Fund to value the securities within its portfolio (s) using Market Prices.</p>	<p>Further, relating to the comment on 4.6, with the unamended definition this rule has the potential to have a detrimental effect on the NAV quality if the Market Price definition is left unamended.</p> <p>To achieve the objective of fair representation of hard-to-value securities, it may be desirable that the rule also concerns itself with the quality of the inputs used to value those securities.</p> <p><b>Suggested wording:</b>  <del>Other than for Hard-To-Value Securities, Subject to the requirements of the requirements of the accounting principles set out in 5.2, the NAV Calculation Policy must require that the Fund to value the securities within its portfolio(s) by giving priority to unadjusted Market Prices, and for Hard-To-Value securities, priority be given to valuation inputs that are directly or indirectly observable (ie those derived from market data, including publicly available information about events and transactions or reflective of assumptions that market participants would use) with the lowest priority to being given inputs that are unobservable (ie where market data is not available regarding the assumptions that market participants would use).</del></p>		
<p><b>5.6.1</b></p> <p>A Fund must justify and identify any weaknesses in Pricing Models, by back-testing in normal market conditions if possible.</p>	<p><b>Industry commented:</b></p> <p>We recommend the deletion of Rule 5.6.1 of Appendix A.</p> <p>Rule 5.6 provides that a <b>"Fund may use Pricing Models to determine a fair value for Hard-to-Value Securities"</b>.</p> <p>While Rule 5.6.1 provides that a <b>"Fund must justify and identify any weaknesses in Pricing Models, by back-testing in normal market conditions if possible"</b>. In practice we do not believe that funds are typically undertaking back-testing. Where a fund holds real assets, back-testing may not be meaningful where there have been no transactions on the asset.</p> <p>The objective of this rule should be calibration of the model</p>	<p>Rule 5.6.1 outlines, "if possible" so it leaves some discretion to the fund. Accordingly, the initial wording will remain.</p>	<p>No changes required.</p>

	<p>used to value the security rather than a process that may or may not achieve that objective and/or may never be capable of occurring in a meaningful way.</p> <p>Further, the objective of achieving fair representation of value should not be limited by the capabilities of a particular provider. It should be a case of seeking a provider that is capable of appropriately valuing not a case of moving to lowering quality value due to a provider not being capable.</p> <p>The quality of the output of pricing models largely depends on the input variables used. Thus it may be desirable that the rule gives some expectation with regards to the quality of inputs.</p> <p>Back testing sounds good and is recommend often. However, it is difficult to carry out and can be rather expensive if outsourced.</p> <p><b><u>Suggested wording:</u></b></p> <p><i>5.6. A Fund may use Pricing Models to determine a fair value for Hard-to-Value Securities:</i></p> <p><i>5.6.1 A Fund must, to the extent appropriate to address the risk of material error, <del>calibrate justify and identify any weaknesses in Pricing Models, by verifying the inputs used in the Pricing Model and testing whether the Pricing Model reflects current market conditions, for example, by applying the model and inputs to a similar instrument for which pricing information is available or other appropriate means. back-testing in normal market conditions if possible.</del></i></p>		
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<p>5.6.2 Any Pricing Models must be capable of practical implementation by the relevant Service Providers.</p>	<p><del>5.6.2—Any Pricing Models must be capable of practical implementation by the relevant Service Providers. In applying a Pricing Model a fund shall take into account all information which is reasonably available at the NAV calculation date that would be considered by a market participant in the application of its Pricing Model but need not undertake exhaustive efforts to obtain that information.</del></p>	<p>The Authority agrees with the proposed wording.</p>	<p>Amended</p>
<p><b>5.7</b></p> <p>The Fund must require the Fund’s relevant Service Providers to apply the NAV Calculation Policy and any Pricing Models consistently, unless there is satisfactory reason not to do so, in which case such derivations must</p>	<p><b>Industry commented:</b></p> <p>Please include our proposed additional language.</p> <p>The Fund must require the Fund’s relevant Service Providers to apply the NAV Calculation Policy and any Pricing Models consistently, unless there is satisfactory reason not to do so, in which case such derivations must be disclosed in the Fund’s offering document <b>or the NAV Calculation Policy</b> and agreed by the Operators in advance of the determination or production of the NAV.</p>	<p>The Authority accepts the revision.</p>	<p>The Authority has amended Rule 5.7 to read:</p> <p>“ The Fund must require the Fund’s relevant Service Providers that are charged with calculating the NAV, to apply the NAV Calculation Policy and any Pricing Models consistently; unless there is satisfactory reason not to do so, deviations, must be</p>

<p>be disclosed in the Fund's offering document and agreed by the Operators in advance of the determination or production of the NAV.</p>			<p>disclosed in the Fund's Marketing Material. Where they have an effect on the reported NAV, they must be immediately disclosed to the Fund's investors and agreed by the Operator(s) in advance of the determination or productions of the NAV"</p>
	<p><b>Industry commented:</b></p> <p>Service Providers as defined include the auditor. The auditor may be concerned with this requirement suggesting their compulsion to comply with a management determined policy and impairment of their independence.</p> <p>Further, deviations from the policy are likely to be determined based on the specific circumstances long after the investor's subscription and consideration of the offering document. It is also not reasonably possible to determine which pricing models may be used at inception, these are investment specific and change over time, for example an investment in a start up business, the model applied at inception would not be the model applied once the business has established itself. Note, that certain financial reporting frameworks include disclosure requirements when models are changed, consequently investor's would become aware of such changes from the financial statements, thus the notification objective could be achieved by a pre-existing means, for example, financial statement disclosures</p> <p>It is not all that unusual for methods to change based upon the dynamics of the market, subject company, etc. As such, this shouldn't necessarily be viewed as a sort of red flag at least immediately.</p> <p><b>Suggested wording:</b> The Fund must require the Fund's relevant Service Providers <u>that are charged with calculating the NAV,</u> to apply the NAV</p>	<p>The Authority accepts the revision.</p>	<p>Amended.</p>

	Calculation Policy and any Pricing Models consistently, unless there is satisfactory reason not to do so, in which case such <u>deviations, where they have a significant effect on the reported NAV, must be disclosed in the Fund's offering document to the Fund's investors, and agreed by the Operators in advance of the determination or production of the NAV.</u>		
5.8  Subject to Rule 5.8, the NAV of a Fund must be calculated by a Service Provider that is independent of the Fund's investment manager / advisor and Operators, competent, and able to adhere to the NAV Calculation Policy and any relevant Pricing Models	<p><b>Industry Commented:</b></p> <p>The determination of the Pricing Model is a function of the NAV calculation policy and determined as a function of the application of that policy. Thus the NAV calculator should not be compelled to comply with the application of a model, where it could in their opinion conflict with the application of the policy if that model is not appropriate. It should therefore be the case that models are not predefined and are determined as a function of the application of the principles in the NAV calculation policy.</p> <p><b>Suggested wording:</b>  <i>Subject to Rule <del>5.9</del> 5.8, the NAV of a Fund must be calculated by a Service Provider that is independent of the Fund's investment manager / advisor and Operators, <u>who is competent, has the capability to value the portfolio of the Fund and able to adhere to the NAV Calculation Policy</u> <del>and any relevant Pricing Models</del></i></p>	The Authority accepts the revision.	Amended
	<p><b>Typographical error:</b>  Subject to Rule <del>5.8</del>5.9, the NAV of a Fund must be calculated...</p>		
	<p>Industry commented:</p> <p>Could you please confirm in what circumstances CIMA would find it acceptable that a non-independent person calculated the fund's NAV instead of that fund engaging an independent service provider as required by Rule 5.8.</p> <p>Rule 5.8 provides that "<b>Subject to Rule [5.10], the NAV of a Fund must be calculated by a Service Provider that is independent of the Fund's investment manager / advisor</b></p>	The Authority is of the view that valuations should be done independently as a matter of best practice. We would evaluate the circumstances on non-independent valuations on a case by case basis.	No changes.

	<p><b>and Operators, competent, and able to adhere to the NAV Calculation Policy and any relevant Pricing Models" while Rule 5.10 provides that "A Fund's investment manager / advisor or Operators may calculate or assist in the calculation of the Fund's NAV only if this fact is explicitly detailed in the Fund's offering document, together with an explanation why another Service Provider could not calculate the Fund's NAV".</b> Our concern is this " Rule 5.10 appears to open the door to non- independent parties being able to calculate the funds NAV.</p>	<p>Additionally, please see the Authority's response provided for Rule 5.10.</p>	
<p><b>5.9.1</b></p> <p>the manager / advisor or Operator must also provide any supporting information that is used to determine the prices</p>	<p><b>Industry commented:</b></p> <p>Please confirm to whom any supporting information that is used to determine prices should be given.</p> <p>It is not clear to us who is to receive the supporting information detailed in Rule 5.9.1 (set out below). Should it be the Service Provider calculating the NAV? The Auditor? <b>[5.9. Wherever prices are provided or sourced by the investment manager / advisor or Operators: 5.9.1 the manager / advisor or Operator must also provide any supporting information that is used to determine the prices; and .....]</b></p>	<p>The supporting information should be provided to the Auditor, during the audited accounts process.</p>	<p>No changes.</p>
<p><b>5.9.2</b></p> <p>The Fund's administrator must verify the prices and NAV to the extent possible.</p>	<p><b>Industry commented:</b></p> <p>Please delete Rule 5.9.2 in Appendix A.</p> <p>We believe that, as drafted, the second limb of Rule 5.9 could be interpreted as meaning that the Administrator would have a regulatory/legal obligation to verify prices sourced by an investment manager/advisor. We would like to highlight that in practice, when an Administrator is relying on an investment manager / advisor to price assets it is typically doing so because the Administrator cannot obtain public pricing data for those assets. Our concern is what effect this verification obligation may have on the Administrator. For example, does this mean that the Administrator would potentially have to seek to engage third party valuation agents in such an instance (possibly at the expense of the Administrator)? Additionally, we do not believe that the additional language in this sub-Rule <b>"to the extent</b></p>	<p>Please see as amended below:</p> <p>5.9. Wherever prices are provided or sourced by the investment manager / advisor or Operators:</p> <p>5.9.1 the manager / advisor or Operator must also provide any supporting information that is used to determine the prices; and</p>	<p>Amended.</p>

	<p><b>possible</b>" is helpful to an Administrator as in a contentious scenario it would be open to an investor to argue that it was/should have been possible for an Administrator to engage a third party to verify the price of the relevant asset. This proposed verification requirement does not appear to be in-line with the approach being taken by regulators in other jurisdictions who recognise that in certain scenarios the practical reality is that the manager/advisor/their affiliates may have to price some assets and who instead require the disclosure of this possibility in the fund's offering document. To put a regulatory / legal obligation on the Administrator to verify these prices effectively requires them to become valuation experts or engage valuation experts. This is neither reasonable nor commercial.</p>	<p>5.9.2 the <del>Fund's administrator</del> <u>Service Provider</u> <u>charged under 5.8 to calculate the NAV, must take steps that are reasonable and proportionate to the risk of material error or bias to verify the facts on which the prices are determined and the appropriateness of the provided price and NAV</u> to the extent <u>reasonably possible.</u></p>	
<p><b>5.10</b></p> <p>A Fund's investment manager / advisor or Operators may calculate or assist in the calculation of the Fund's NAV only if this fact is explicitly detailed in the Fund's offering document, together with an explanation why</p>	<p>If Rule 5.10 of Appendix A is retained, please delete the following language from that rule - "together with an explanation why another Service Provider could not calculate the Fund's NAV".</p>	<p>The Authority is of the opinion that this requirement is a benecial disclosure.</p>	<p>No change.</p>
	<p><b>Industry commented:</b></p> <p>The operator has a fiduciary obligation, this should prevail in all circumstances irrespective of the offering document, including that of 5.13. Further, the involvement of others is unlikely to be predefined and a function of the particular circumstances at a measurement date. Further, circumstances may arise where it is in the interest of investors for the Operator or others to increase their role.</p>	<p>The Authority accepts the proposed wording.</p>	<p>Amended.</p>



<p>another Service Provider could not calculate the Fund's NAV.</p>	<p>Is it intended for the valuation specialist to be mentioned in the offering document? For many firms that is problematic.</p> <p><b>Suggested wording:</b>  A Fund's investment manager / advisor or Operators may calculate or assist in the calculation of the Fund's NAV only if this fact is explicitly detailed in the Fund's offering document, together with an explanation why another Service Provider could not calculate the Fund's NAV. <u>This requirement shall not preclude the involvement of the Operators in the NAV calculation where involvement is necessary to comply with the requirements of 5.13, their fiduciary obligations or any legal or regulatory obligation, their responsibility for the Fund's audited Financial Statements, or a failure to comply with the NAV calculation Policy by the Service Provider charged with the NAV Calculation nor should it preclude the involvement of the investment manager / advisor or Operator from any involvement whatsoever where such involvement is determined to be in the best interests of the investors and to comply with this Rule.</u></p>		
	<p>Rule 5.10 provides that "A Fund's investment manager / advisor or Operators may calculate or assist in the calculation of the Fund's NAV only if this fact is explicitly detailed in the Fund's offering document, together with an explanation why another Service Provider could not calculate the Fund's NAV". Our concern is this Rule 5.10 appears to open the door to non-independent parties being able to calculate the fund's NAV.</p>	<p>Please see proposed amendments above directly</p>	<p>No changes.</p>

<p><b>5.11</b></p> <p>In addition to any disclosure required by Rule 5.8, a Fund’s offering document must explicitly describe the potential limitations and conflicts of the NAV Calculation Policy, and any material involvement by the Fund’s investment manager / advisor in the pricing of the Fund’s portfolio, or otherwise in the calculation, determination or production of the NAV.</p>	<p><b>Typographical error noted industry:</b></p> <p>In addition to any disclosure required by Rule <del>5.8</del><b>5.10</b>, a Fund’s offering document.</p> <p>It is unclear what would constitute a conflict of the NAV calculation policy.</p> <p>In addition to any disclosure required by Rule <del>5.8</del><b>10</b>, a Fund’s offering document must explicitly describe the <u>inherent limitations potential limitations and conflicts</u> of the NAV Calculation Policy, and any material involvement by the Fund’s investment manager / advisor in the pricing of the Fund’s portfolio, or otherwise in the calculation, determination or production of the NAV <u>and any conflicts of interest caused by such involvement.</u><u>A Fund’s offering documents must explicitly disclose any conflicts of interest caused by such involvement by the Fund’s investment manager / advisor in the determination of the NAV, taking into consideration the pricing of hard to value securities.</u></p>	<p>The Authority accepts the revision.</p>	<p>Amended</p>
	<p>5.8 states “subject to Rule 5.8” this reference may not be correct. 5.11 says “In addition to any disclosure required by Rule 5.8...” there don’t appear to be disclosure requirements in 5.8.</p>	<p>This was a typographical error.</p> <p>The below amendments were made: Rule -5.8.</p> <p>“Subject to Rule <del>5.8</del>-5.9, the NAV of a Fund must be calculated...”</p> <p>Rule 5.11 -</p> <p>“5.11. In addition to any disclosure required by Rule <del>5.8</del>-5.10, a Fund’s offering document must explicitly...”</p>	<p>Amended</p>

<p><b>5.12</b></p> <p>NAV reports must be addressed directly to the Fund's investors.</p>	<p><b>Industry commented:</b></p> <p>Please include the following proposed language in Rule 5.12 of Appendix A - "(or the authorised agent of the investor)". NAV reports must be addressed directly to the Fund's investors <b>(or the authorised agent of such investor)</b>. It is unclear as to what constitutes the NAV report and thus the objective, purpose and investor benefit derived from this rule. Further addressing of the communication does not correspond to a delivery requirement.</p> <p><b>Suggested wording:</b>  <u>The NAV of the Fund shall be communicated directly to the investors (as recorded on the official register of the entity), including to each particular investor their share of the balance or NAV per unit, by the Service Provider charged in 5.8 with the NAV Calculation. reports must be addressed directly to the Fund's investors.</u></p>	<p>The Authority accepts the revision.</p>	<p>Amended</p>
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