ENHANCING OUR FUNDS REGIME - CP 115

Dhammika Amukotuwa
Director, Policy and Strategy
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What we will cover today

- Drivers for change and an overview of the proposals
- Removing the number-based criterion in Fund definitions
- Liquidity risk management controls for open-ended Funds
- Exchange Traded Funds
- Property Fund enhancements
- Internally managed model for Funds
- Other enhancements
- Going forward
- Questions

Drivers for change and an overview of the proposals

Three major drivers:

- Evolving international standards and practices;
- The needs of the Centre as a more mature regime; and
- Flexibility and options to investors and fund managers.

Key proposals

- Removal of the number-based limits in Funds – to give more flexibility;
- Liquidity risk management controls for open-ended Funds – in line with international standards;
- Regime for Exchange Traded Funds (ETFs) – greater choice of Funds;
- Property Fund and REIT enhancements – greater flexibility/clarity;
- ‘Internal fund manager’ model – more choice;
- Summary of key information - investor protection; and
- Miscellaneous tidy-ups - greater clarity.

Removing the number-based criterion in Fund definitions

Current demarcation

- A Public Fund – has over 100 investors, or makes a public offer or has retail investors
- An Exempt Fund – has 100 or fewer professional investors each of whom makes a minimum initial subscription of US$50,000 by private placement
- Qualified Investor Funds (QIFs) – has 50 or fewer professional investors each of whom makes an initial subscription of US$500,000 by private placement

Going forward

- Same definitions, no investor numbers
- A Fund with retail investors or making a public offer remains a Public Fund
- An Exempt Fund or QIF remains open to professional investors only, the size of minimum subscription by private placement demarcating the two

Effect of removing number-based criterion

The Collective Investment Law and the Companies Regulations need changes to ensure that:

- only Public Funds need registration as Public Companies; and
- both Exempt Funds and QIFs need to be registered as Private Companies.

To make a ‘public offer’ or to ‘list and trade’ – a Fund needs to be a Public Fund.

Creates a level playing field for all Funds – using the trust, partnership or company structures

To offer a Unit of a Foreign Fund to professional investors, such a Fund need not be limited to 100 or fewer investors.

Liquidity risk management controls (LRMCs) for open-ended Funds

What is an open-ended Fund?

- A Fund which offers its investors a right to redeem investments at Net Asset Value (NAV).
- Units in closed-ended Funds cannot be redeemed at NAV. Instead, can be sold at market value.

Why do open-ended funds need effective LRMCs?

- To address liquidity mis-match risk (i.e. between available liquid assets and redemption requests)
- To remove first mover advantage risk (by mitigating unequal treatment between outgoing and remaining investors)
- To address spill-over risk (i.e. counterparty failure and contagion)

Why do we propose new LRMCs?

- To meet international standards
- To enable open-ended funds to be listed and traded

Current and proposed LRMCs

Current regime

- Only a broad generic requirement that all Funds have adequate systems and controls to address financial and other risks.

Proposals

- More detailed requirements for all open-ended Funds to have well documented policies and strategies to manage liquidity risk. For example:
  - adopt preventive measures, such as liquidity buffers and anti-dilution levies, taking into account the type of investors and class of assets in the Fund;
  - measure, monitor and stress-test on a regular basis whether the controls adopted are working effectively, and address identified gaps; and
  - have clear powers available to the Fund Manager to manage liquidity stresses (such as redemption gates).
- Take account of the IOSCO Principles for liquidity risk management when developing policies and strategies to manage liquidity risk in the Fund.

Exchange Traded Funds (ETFs)

What is an ETF?

- An ETF:
  - generally tracks the performance of a specified index or other benchmark;
  - uses a dual mechanism for concurrent primary market and secondary market trading; and
  - has its units trading on-market at a price close to net asset value (NAV).

Why are we introducing a regime?

- Increasingly popular specialist class of Funds among retail investors.
- Generally considered to be lower cost investments.
- International standard-setters are focusing on proper regulation of ETFs due to their popularity.

Dubai Financial Services Authority

ETFs

Define an ETF as a new specialist class of Fund that:

- is an open-ended Public Fund;
- has its Units available for trading throughout the day on a regulated exchange meeting specified criteria; and
- has at least one market maker (Authorised Participant) prepared to buy and sell Units throughout the day.

Prohibit the use of the term ETF unless it meets the above criteria

Give Guidance on ETF characteristics, types of ETFs, and ETF jargon to facilitate investors' understanding. For example:

- how ETFs differ from other listed Funds; and
- different types of ETFs (e.g. physical and synthetic ETFs, active and passive ETFs).

Restrict ETFs in the DIFC to passive index or other benchmark trackers

Impose conduct and prospectus disclosure requirements specific to ETFs

Property Fund enhancements

Key proposals:

- Guidance to distinguish a commercial property company from a Property Fund;
- Only Public Property Funds need to be closed-ended. Property Funds which are Exempt Funds or QIFs can be open-ended or closed-ended;
- A REIT currently needs to be a closed-ended Public Fund. We propose that an Exempt Fund or QIF may also use the REIT tag; and
- Extending the current six month period to list and trade to three years.

‘Internally managed’ model for Funds

What is an ‘internally managed’ Fund?

- An Investment Company.
- managed by its own Corporate Director.
- that meets certain additional criteria.

Why are we proposing this model?

- Under the current regime, only the ‘external’ Fund Manager model exists.
- Proposal gives another option to Fund Managers.

‘Internally managed’ model for Funds

Criteria	Benefits
• Fund must be constituted as an Investment Company (IC). • IC must choose to be internally managed, and its Articles of Association must not prohibit it from doing so. • IC must have a single Corporate Director (i.e. no other directors). • The Corporate Director must have at least two individual directors (Authorised Individuals). • The Corporate Director must be licensed to manage only the IC in which it is the single Corporate Director.	• Lower application and annual fees proposed – USD 5000. • Fast track process – as for QIF. • Cost savings from having its own Board (the Corporate Director) managing the IC.

Other enhancements

Allowing self-custody for highly illiquid assets (e.g. infrastructure investments) in Exempt Funds and QIFs.

Introduction of a Summary of key information in a Public Fund Prospectus.

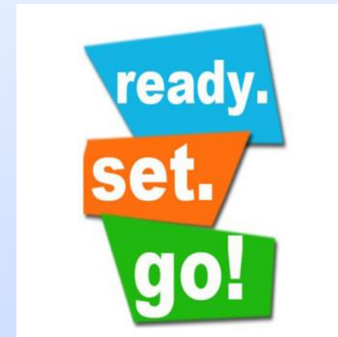
Removing the inconsistency of allowing closed-ended Investment Companies to be excluded from regulation as Funds - unless they invest in Real Property or Investments.

Going forward

Comment period ends on 20 December 2017

Use of the *pro forma* Table to provide comments

Proposals are facilitative – if any transitional arrangements are needed, let us know in your submission



Expected time for implementation – early 2018

Questions


Thank You