



**FEDERATION OF MALAYSIAN UNIT TRUST MANAGERS**  
( Company No. 272577 - P )

**INVESTMENT MANAGEMENT STANDARD**

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| <b>REFERENCE NO</b>   | <b>: FMUTM/IMS(R&amp;D)-007</b> |
| <b>DATE ISSUED</b>    | <b>: 30 AUGUST 2007</b>         |
| <b>EFFECTIVE DATE</b> | <b>: 1 NOVEMBER 2007</b>        |

**INCORRECT PRICING OF SCHEME UNITS: CORRECTION AND REIMBURSEMENT**

**1.0 APPLICATION AND EFFECTIVE DATE**

1.1 This Investment Management Standard is made pursuant to Article 63 of the Memorandum of Association and shall come into force on 1 November 2007.

**2.0 BACKGROUND**

2.1 Notwithstanding that there are approved internal controls over pricing adopted by respective Unit Trust Management Companies (UTMCs) for the benefit of investors, reconciliation differences or errors may however be discovered on occasion, and that may in turn result in an incorrect calculation of asset value of the Schemes. Such differences can be caused by, but are not limited to:

- a) Trades posted wrongly: Include situation where a trade was processed against the wrong account or was not correctly registered in the system;
- b) Mishandling of corporate actions: Include situation where a corporate action may have been overlooked completely or simply not processed correctly; and
- c) Receipts/ Payments (cash flows) wrongly accounted for.

2.2 As stipulated in Clause 4.06(6) and (7) of the Guidelines on Unit Trust Funds (Guidelines), UTMCs are required to, among others, ensure that units of the Unit Trust Scheme (Scheme) are correctly valued and priced. And, should there be any incorrect pricing, UTMCs are required to take immediate remedial action to rectify the unit pricing.

- 2.3 Where the breach relates to the incorrect pricing of units is deemed significant, rectification must extend to the reimbursement of money in the following manner:
- a) by the UTMC to the fund, and/ or to the unit holders and/ or to the former unit holders; or
  - b) by the fund to the UTMC.
- 2.4 However, there is no definition on what is deemed significant and the interpretation is left to UTMCs' discretion which has led to inconsistent practices. Certain approaches, on some occasions may unintentionally led to the potential risk of unit holders being disadvantaged.

### **3.0 OBJECTIVES**

- 3.1 The purpose of this Investment Management Standard is to define occasions when incorrect pricing is deemed to have occurred and sets out standard practices to follow in situations when incorrect pricing of Schemes takes place and when the reimbursement is required.

### **4.0 INCORRECT PRICING OF SCHEME UNITS**

#### **4.1 Scope**

For the purpose of this Investment Management Standard, incorrect pricing of Scheme units refers to the pricing discrepancies in the calculation of Net Asset Value (NAV) of a Scheme. They do not relate to other unit transaction errors, for example, where an investor agrees to purchase units of a particular Scheme and units of a different Scheme are purchased on that investor's behalf; or where the correct Scheme is purchased but with the wrong commission structure or "load".

#### **4.2 Immediate unit pricing correction required**

Should there be any incorrect pricing of Scheme units, UTMCs are required to take immediate remedial action to rectify the unit pricing at fund level.

#### **4.3 Significant threshold for reimbursement**

UTMCs' remedial action must extend to the reimbursement of money in manner as prescribed in Clause 4.06(7) of the Guidelines if the error is at or above the significant threshold of 0.5% of the unit NAV, unless the total impact on an individual account is less than RM10.00 in absolute amount, of which no reimbursement of money is required as the reprocessing costs may in fact be greater than the amount of the adjustment.

UTMCs are nevertheless allowed to pay any amount to the unit holders or former unit holders even though it is less than 0.5% of the unit NAV or RM10.00. For example, UTMCs may decide to reimburse to investor(s) if the total amount of reimbursement to any investor is deemed significant in absolute terms even though the error is less than 0.5% of the unit NAV or RM10.00.

Actions required from UTMCs in the correction and reimbursement with regard to incorrect pricing of Scheme units are summarized in Appendix 1.

#### 4.4 Cumulative effect of unit pricing errors

Where there are more than one error occurring on a single day, it is the net effect of all errors that should be considered at the end of that day. If a single error is protracted over successive days, the threshold is applicable for each day separately.

#### 4.5 Disclosures in prospectus and deed

The significant threshold and absolute amount adopted by UTMCs are required to be disclosed and reflected in the prospectus and deed of the Schemes.

### **5.0 EFFECTIVE DATE**

5.1 This Investment Management Standard shall come into force on the date as specified in Clause 1.0 of this Investment Management Standard but earlier adoption of this Investment Management Standard is permitted and encouraged.

5.2 Notwithstanding the above, UTMCs will be given a grace period of one year from the effective date of this Investment Management Standard, after which the UTMCs must comply fully with this Investment Management Standard.

5.3 Where the FMUTM allows any exemption or variation from this Investment Management Standard during the grace period, UTMCs will not be absolved from any other requirements as provided under any written law.

### **6.0 APPLICABILITY**

6.1 This Investment Management Standard shall be applicable to all Schemes, whether existing or new.

6.2 This Investment Management Standard is based on the premise that fund managers have the ultimate responsibility to value the fund correctly, whether this is undertaken directly by the fund manager or outsourced to a third party.

### **7.0 SYSTEMS AND CONTROLS**

7.1 UTMCs should document, regardless of whether they have outsourced to third-party some or all of the unit pricing functions, their unit pricing policies and procedures.

7.2 UTMCs must also adopt prudent policies and institute internal procedures and controls (data edit checks, secondary person sign off, etc.) to monitor, detect and prevent possible inaccurate pricing of Scheme units, for example a corporate action that is being accounted for incorrectly and having an effect on NAV calculations.

Some of the examples for such systems and controls are as follows:

- a) Fund Valuation System: A fund valuation accounting system that can minimize regular manual data input and/ or able to flag security and portfolio price variances beyond specified tolerances will be able to assist in calculation of NAV. Where this functionality is not available in the existing system being used, consideration should be given to employing manual processes (eg. employing “Supervisory Checking” as mentioned below and using MS Excel spreadsheet etc.) that would accomplish the same goals.

- b) Pricing Policy: UTMCs should have a documented policy for fund valuation in the case of less liquid securities and special situations (i.e. “fair value” situations). Such a policy may include accounting policies and valuation models as determined in good faith by the UTMC, based on the methods or bases approved by the trustee after appropriate technical consulting.
  - c) Supervisory Checking: The fund valuation process should include appropriate review by persons independent of the preliminary calculation or valuation process. Specifically, manual calculations and inputs used to prepare the preliminary valuation should be double-checked and recalculated.
  - d) Personnel: Those individuals who are involved in the process should be competent in basic accounting and have adequate knowledge of both securities generally and the investment funds industry.
  - e) Expense Accruals: These should be reviewed periodically to assess variance with actual expenditure and, where appropriate, adjusted accordingly.
- 7.3 All pertinent records should be maintained and made available for checking and audit verification purposes.

Appendix 1

Flow Chart for Incorrect Pricing of Scheme Units: Correction and Reimbursement

