



# SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

(Established under Act No. 36 of 1987)

Level 28 - 29, East Tower, World Trade Center, Echelon Square, Colombo 1, Sri Lanka.

Tel: (9411) 2439144 / 2331013 Fax: (9411) 2439149 E-mail: mail@sec.gov.lk Website: www.sec.gov.lk



By Registered Post

Ref: SEC/LEG/09/01/08

07<sup>th</sup> January 2009

Circular No: 01/2009  
**(Unit Trust – 2)**

To: All Managing Companies and Trustees of Unit Trust Funds

## **Directives to the Unit Trust Industry**

The Securities and Exchange Commission of Sri Lanka (SEC) acting under and in terms of Section 13 (c) of the Securities and Exchange Commission of Sri Lanka Act No 36 of 1987 as amended by Act Nos. 26 of 1991 and 18 of 2003 (SEC Act) hereby issues the Directives set out below as being applicable to Managing Companies and Trustees of Unit Trust Funds.

All previous Directives issued 'generally' to all Managing Companies and Trustees of Unit Trust Funds are hereby rescinded.

Any directive issued specially to any particular Managing Company or a Trustee shall however continue to be operative.

### **(1) Investment Restrictions**

Issuer and Class of Security	Investment Parameters
(A) Listed Issuer <ul style="list-style-type: none"><li>▪ <b>Listed equity</b></li></ul>	15% of the Net Asset Value (NAV) or Percentage of CSE Market Cap weight which ever is higher subject to a maximum 10% of the Investee Company's voting share capital.
(B) Listed Issuer <ul style="list-style-type: none"><li>▪ <b>Listed debt</b></li><li>▪ <b>Unlisted debt</b></li></ul>	25% of NAV  If <i>Guaranteed</i> 15% of NAV Provided (D set out below) is not violated.  If <i>Endorsed</i> with recourse 15% of NAV Provided (D set out below) is not violated.  If <i>Rated</i> (entity/issue) – 15% of NAV  If none of the above 10% of NAV



<p>(C) Unlisted Issuer</p> <ul style="list-style-type: none"> <li>▪ <b>Listed debt</b></li> <li>▪ <b>Unlisted debt</b></li> </ul>	<p>25% of NAV</p> <p>If <i>Guaranteed</i> 15% of NAV Provided (E set out below) is not violated.</p> <p>If <i>Endorsed</i> with recourse 15% of NAV Provided (E set out below) is not violated.</p> <p>If <i>Rated</i> (issuer/ issue) 15% of NAV Provided (F set out below) is not violated.</p> <p>Any investment not falling within these parameters requires special approval by the Commission.</p>
<p>(D) Listed Issuer</p> <ul style="list-style-type: none"> <li>▪ <b>Listed equity, listed debt and unlisted debt</b></li> </ul>	<p>25% of the NAV Provided ((A) and (B) set out above) are not violated.</p>
<p>(E) Unlisted Company</p> <ul style="list-style-type: none"> <li>▪ <b>Listed debt and unlisted debt ( subject to disclosure requirements)</b></li> </ul>	<p>25% of the NAV Provided (C set out above) is not violated.</p>
<p>(F) Bank licensed by the Central Bank of Sri Lanka and carrying an investment grade rating</p> <ul style="list-style-type: none"> <li>▪ <b>Whether through Investments/ endorsements/ guarantees</b></li> </ul>	<p>Total Exposure Permitted:</p> <p>25% of the NAV</p>
<p>(G) Listed/ unlisted Issuer</p> <ul style="list-style-type: none"> <li>▪ <b>IPO's, Offers for Sale and Rights Issues</b></li> </ul>	<p>15% of the NAV or up to the % weight of equity the expected Market Cap of the company in comparison to the total expected Market Cap based on the Highest Bid Price.</p>
<p>(H) Placement or Offer For Sale of listed Debt Instruments</p>	<p>25% of the NAV</p>
<p>(I) Quasi Equity Convertible Securities</p>	<p>Allowed within limits specified from ((A) to (F) set out above) upon expected conversion.</p>
<p>(J) Derivatives, Warrants</p>	<p>Allowed where at the 'exercise price' the securities will be within the limits specified from ((A) to (F) set out above).</p>



**(2) Management of Portfolios for third parties by Managing Companies of Unit Trusts**

In the event Managing Companies undertake the management of third party portfolios, such Companies shall comply with the Rules applicable to Investment Managers issued under the SEC Act.

**(3) Minimum Net Capital**

All Managing Companies shall maintain a minimum net capital of Rs 25 million at all times.

Yours faithfully,

*Marina Fernando*

Marina Fernando  
**Deputy Director General**

-/da