



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/09/01/11

07th January 2009

Circular No: 02 /2009
(Unit Trust – 3)

TO: All Managing Companies and Trustees of Unit Trust Funds in Sri Lanka

RE: GUIDELINES FOR TRUSTEES AND MANAGING COMPANIES OF UNIT TRUSTS FUNDS

These Guidelines are in addition to, and not in derogation from, the duties and responsibilities which are otherwise imposed on them by law and by the Trust Deed.

1. INDEPENDENCE OF THE MANAGING COMPANY AND THE TRUSTEE

- 1.1 The Trustee and the Managing Company shall be separate legal entities.
- 1.2 (a) neither the Trustee nor the Managing Company shall be:
 - (i) a holding or subsidiary of the other;
 - (ii) an associate of the other unless at least one third of its board of directors comprise of independent directors.
- (b) No person shall simultaneously be an Executive Director of the boards of directors of the Managing Company and the Trustees.
- (b) Key personnel such as Chairman/General Manager/Chief Executive Officer of the Managing Company shall not be a Trustee of any unit trust fund.
- (c) The Trustee shall ensure that there is no commonality of usage and sharing of its non-financial resources with the Managing Company. Sufficient independence and separation of non-financial resources must be established, e.g. human resources, information systems, business equipment, computer facilities, etc.
- 1.3 The Trustee shall be financially independent of, and not reliant on, support from the Managing Company (except in transactions which are made in the ordinary course of business);

**Guidance**

To supervise and monitor the operations of the unit trust which should be conducted independently from the Managing Company.

The Trustee must not be reliant on any form of financial support from the Managing Company. However, relationships between the Managing Company and the Trustee arising from the provision of deposits or loans or such other transactions which are made in the ordinary course of business and services provided at 'arms length' are acceptable.

2. FINANCIAL CAPACITY

- 2.1 The Trustee shall at all times have and maintain net capital as directed from time to time by the SEC.

3. FIT AND PROPER

- 3.1 The Trustee shall have personnel with the adequate qualification, expertise and/or experience to effectively carry out its functions.
- 3.2 The Trustee may act as Trustees of any other trust provided that the objects of the trust are not in conflict with each other.
- 3.3 No director or employee shall deal with clients for and on behalf of a Trustee or Managing Company if such person has during the immediately preceding five years of being so employed or appointed been:
- (a) convicted by any Court of Law involving violation of any securities/ financial laws or any laws relating to financial business in Sri Lanka or abroad; and/or
 - (b) found to have committed or been connected with the commission of any act which involves fraud, deceit or dishonesty by anybody with regulatory or supervisory authority;
 - (i) established by law in Sri Lanka or abroad,
 - (ii) constituted under law as a commission of inquiry, tribunal or other similar body, or
 - (iii) by any professional association which in the opinion of the SEC is of an established and credible stature,
- 3.4 A Managing company shall ensure that at least two persons with the 'Academic Qualifications and Experience' prescribed below in these Rules are employed by such Managing Company to conduct its business in accordance with the investment objective and policy as set out in the unit trust fund.



3.5 Every director or employee or agent dealing with clients on behalf of a Managing Company shall possess the qualifications and/or experience set out below;

- (a) (i) - Associate of the Institute of Chartered Accountants of Sri Lanka;
- Associate of the Chartered Institute of Management Accountants, UK;
 - A degree in Accountancy, Economics, Finance or Business Administration from an accredited Sri Lankan or foreign university;
 - Chartered Financial Analyst;
 - Associate of the Chartered Association of Certified Accountants;
 - Associate of the Chartered Institute of Bankers, UK;
 - Associate of the Institute of Bankers of Sri Lanka; or
 - An equivalent or higher professional and/or academic qualification acceptable to the SEC in a related field such as finance (In determining suitability of qualification particular attention will be paid to those recognised by the University Grants Commission of Sri Lanka);

and

active experience in the financial/securities market for a minimum period of two years.

OR

- (ii) relevant active experience in the financial/securities market for a minimum period of seven years.

Experience for the duration prescribed under clauses (a) (i) and (ii) above per se will not fulfill the requirement and the SEC shall consider the nature, scope and intensity of experience in determining its adequacy.

- (b) Regulatory knowledge as prescribed by the Securities and Exchange Commission of Sri Lanka.

Guidance

To ensure that acceptable understanding of the relevant laws and regulations are adhered to by the personnel to effectively carry out their regulated activities competently and fairly.

The SEC may direct an increase in the number of such qualified personnel on account of the volume of business proposed to be undertaken or undertaken by such Managing Company.



4 DISCLOSURES

4.1 There shall be disclosures made of the following in the explanatory memorandum and annual reports of funds:

- (a) Group structure of the Trustee and Managing Company;
- (b) The investment instruments which the fund has invested in for the period concerned, for which the Trustee Company is also a Trustee (e.g. investments in public debt securities);
- (c) Declaration by the Trustee and the Managing Company that they will carry out transactions at an arm's length basis and on terms which are best available for the fund, as well as act, at all times, in the best interests of the fund's unit holders;
- (d) Declarations by the board of directors of the Trustee and Managing Company as to whether the requirements of these Guidelines have been complied with or have not been complied with during the period concerned and in the event of the latter, the reason for such non-compliance.

5 WAIVER

The SEC may waive compliance with any Rule on being satisfied that the attendant circumstances justify such waiver.

Yours sincerely,

Marina Fernando

Marina Fernando
Deputy Director General

-/da