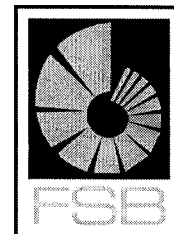


FINANCIAL SERVICES BOARD

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CISCA CIRCULAR NO 4 TO COLLECTIVE INVESTMENT SCHEMES IN SECURITIES

1. Notice 1503 of 2005 (Government Gazette No. 28287 dated 15 December 2005)

Subsequent to the implementation of Notice 1503 of 2005, issued under the Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002) ("the Act"), this Office received numerous enquiries and comments from both the industry and the Trustees. From these enquiries and comments it became apparent that the following provisions of the said Notice needed reconsideration or further explanation.

A. MATTERS REQUIRING AMENDMENT

1.1 Definition of "assets in liquid form" in Notice 1503

This definition will be expanded to include qualifying assets additional to those currently prescribed. This will be effected through the following proposed amendment to the Notice, by inserting items (b) and (c):

The definition of "assets in liquid form" is hereby replaced by the following definition:

"assets in liquid form" means –

- (a) any amount of cash consisting of Reserve Bank notes and coin;
- (b) any balance in an account with a bank or mutual bank, registered otherwise than provisionally, as defined in the Banks Act, 1991 (Act No. 94 of 1990), or in the Mutual Banks Act, 1993 (Act No. 124 of 1993), respectively, or with a branch of a foreign institution, which institution is authorised in terms of the Banks Act, 1990, to conduct the business of a bank by means of such branch, excluding a trust account as contemplated in section 105 of the Act;
- (c) any positive net balance in a settlement account operated for the buying and selling of underlying assets: Provided that if the net balance in the said account is negative, such balance should be deducted from the total amount of assets in liquid form;

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Executive Officer: RJG Barrow



2.

- (d) any instrument determined in Chapters III and IV; and
- (e) participatory interests in a money market portfolio referred to in Chapters III and IV,

which is capable of being converted into cash within seven days, provided that any exposure to an entity created through the inclusion of assets in liquid form must be added to any other exposure to the same entity for the purposes of calculation any limit prescribed in this Notice;”.

Managers kindly furnish this Office with your comments on this proposal within 30 days from the date of this Circular.

1.2 Paragraph 3(12) of Notice 1503

In line with the practice by the JSE Limited relating to the use of “free float weighting” of indices, it is proposed to replace paragraph 3(12) of the Notice by the following:

“(12) A manager may not include in a precious metals and minerals portfolio securities issued by any one concern to an amount in excess of a percentage, equal to that concern’s free float weighting in the FTSE/JSE Gold, FTSE/JSE Platinum or FTSE/JSE Diamond Index, subject to a maximum of 60 per cent of the market value of all the assets comprised in the portfolio.”.

B. MATTERS REQUIRING CLARIFICATION

2. Securities

2.1 Debentures issued by NewGold Issuer Limited and listed on the JSE Limited

Kindly note that these debentures do not generate any income as the underlying assets consist of gold bullion bars and that it only provides capital growth. In view hereof, this investment is only suitable for certain equity portfolios whose investment policy determines that the main objective of the portfolio is to provide capital growth.

2.2 Repurchase agreements, or so-called carries, are currently not included in the definition of “securities” and therefore do not qualify for inclusion in a portfolio. The matter has been referred to the Governance Standing Committee of the Association of Collective Investments for consideration. As soon as any decision has been taken on this matter, managers will be notified accordingly.

3. Participatory interests in exchange traded funds

An investment in participatory interests in exchange traded funds should be treated as an investment in a portfolio of a collective investment scheme and the provisions of paragraph 3(4)(a) of Notice 1503 apply. Kindly note that the investment policy of a portfolio should specifically allow for the inclusion of this type of instrument. Any investment in an exchange traded fund which is not registered as a collective investment scheme, must be treated as a security to which paragraph 3(1) applies.

4. Non-equity securities

With regard to the inclusion of non-equity securities in a portfolio as contemplated in Chapter VII of Notice 1503, the following should be noted. Where such security is listed but not rated, the investment limits of Chapter I apply; where it is rated and not listed, the investment limits of Chapter VII apply; and finally, where it is listed and rated, the higher of the investment limits of Chapter I or Chapter VII apply.

5. Unlisted forward currency, interest rate or exchange rate swap transactions as contemplated in paragraph 3(13) of Notice 1503

Any exposure under these transactions should at all times be covered, *i.e.* no uncovered positions are permitted. Furthermore, while “efficient portfolio management” is not defined, managers should always keep the following in mind:

5.1 There are three broadly based requirements that should be applied:

- (a) All transactions must be economically appropriate;
- (b) any exposure under any transaction must be fully covered; and
- (c) transactions must be entered into for one or more specific aims as set out in 5.2 below.

5.2 The aims referred to in 5.1(c) above, are the following:

- (a) The reduction of risk;
- (b) the reduction of cost; and
- (c) the generation of additional capital or income for a portfolio with an acceptable low level of risk.

5.3 These requirements and aims are merely guidelines and a manager must always keep in mind the “principles for administration of collective investment scheme” as prescribed in section 2 of the Act, relating to the manner of administration of a scheme and the protection of property of investors.

6. Definition of “investment company”

Paragraph 3(14) of Notice 1503 contains a definition of “investment company”. This definition still applies but note that the name of the relevant sector on the JSE Limited has been changed to “Equity Investment Instruments”. This is to provide for the inclusion of non-company structures in that sector as contained in the new FTSE/JSE classifications.

7. Paragraph 7(b) of Chapter II of Notice 1503

The words “appropriate” and “similar” underlying assets as used in the said paragraph, refer to the underlying assets included in the relevant index or group of securities on which any contract referred to in the said paragraph is based. Only assets included in an index or group of securities, although not necessarily all the assets or securities, can be used for the calculation of the exposure that should be maintained.

8. Annexures B and C to Notice 1503

With reference to the overlapping of short-term ratings in certain bands, attention is invited to Note 3 to each Annexure which prescribes the procedure to be followed in such case.

As regards the public availability of ratings, kindly note that this Office is still in consultation with the rating agencies to resolve the matter.

9. Purchase of Underlying Assets

Where a manager buys an underlying asset on the secondary market, it must obtain and pass through to the Trustee, a breakdown of the cost into capital and interest and premium or discount, as the case may be. This will enable the Trustee to accurately allocate income to a portfolio.

10. Quarterly Report

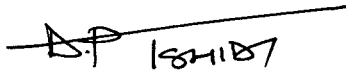
For purposes of the completion of quarterly reports, financial instruments must be valued at their fair market value, e.g. the price quoted on the exchange, as required by section 44 of the Act.

11. General

Finally, it must be pointed out that this Office continuously receives complaints from Trustees that certain managers do not abide by the provisions prescribed under Notice 1503. Trustees have been requested to report to this Office any transgression of these provisions and it must be stressed that this Office will not hesitate to take action against any manager that transgresses.

12. Acknowledgement of Receipt

Kindly hand a copy of this Circular to your auditor. The attached acknowledgement of receipt, duly completed and signed by both the chief executive officer of the manager and the auditor, should be returned to this Office at the earliest convenience.

**REGISTRAR OF COLLECTIVE INVESTMENT SCHEMES**

ACKNOWLEDGEMENT OF RECEIPT



1. I acknowledge receipt of a copy of Cisca Circular No. and confirm that a copy was also handed to the Audit Committee of the Scheme.

.....
Chief Executive Officer

Name of Manager

Date

2. I acknowledge receipt of a copy of Cisca Circular No.

.....
Auditor

Name of Auditor

Date

Kindly return to:

Registrar of Collective Investment Schemes

Financial Services board

P O Box 35655

Menlo Park

0102