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The State of the Investment Management Industry in Asia

Summer 2001

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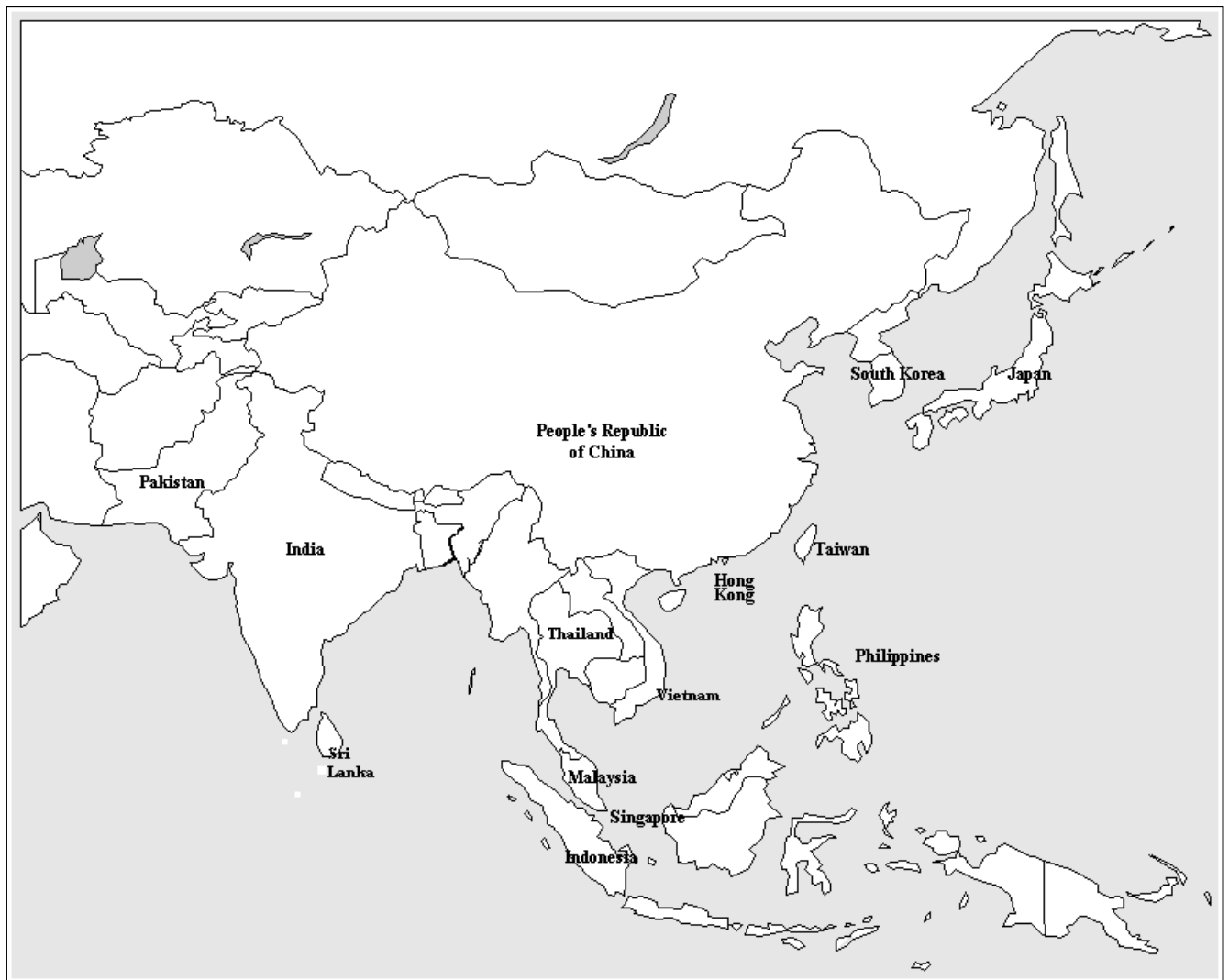
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Preface

This is the Summer 2001 edition of *The State of the Investment Management Industry in Asia*. The purpose of this guide is to present new developments in 14 countries in Asia: Hong Kong, India, Indonesia, Japan, South Korea, Malaysia, Pakistan, the People's Republic of China, the Philippines, Singapore, Sri Lanka, Taiwan, Thailand and Vietnam.

The information relating to regulatory law and practice is an update of the information in previous editions of The State of the Investment Management Industry in Asia. The opportunity has also been taken to provide useful additional information. Reference may be made to the information in previous editions. If you do not have copies of previous editions, you may obtain them by writing to Vicky Kwok, KPMG Publications, 8/F Prince's Building, Central, Hong Kong or telephoning her on (852) 2826 7368.

Asian currencies

Country	Currency	Exchange rate as at 20 Sept 2001 (Currency per US\$)	Foreign exchange controls
Hong Kong	Dollar	7.7995	Freely convertible; pegged to the US dollar at a rate of 7.8; no formal exchange controls.
India	Rupee	47.975	Not freely convertible; restricted to the current account.
Indonesia	Rupiah	9,537.5	Freely convertible; no restrictions on the repatriation of profits or capital.
Japan	Yen	117.535	Freely convertible.
Malaysia	Ringgit	3.7995	Foreign currency funds may be repatriated subject to a levy calculated based on how long the funds have been kept in Malaysia.
Pakistan	Rupee	64.26	Foreign investors may freely invest in new share issues, in all shares quoted on the stock exchange, and in rupee denominated corporate debt instruments, and can repatriate dividends/profits, and capital gains/sale proceeds of shares and debt instruments on the basis of documentation prescribed by the country's Central Bank.
People's Republic of China	Renminbi	8.2766	Not freely convertible; restricted to the current account.

Country	Currency	Exchange rate as at 20 Sept 2001 (Currency per US\$)	Foreign exchange controls
Philippines	Peso	51.425	Foreign investors may freely repatriate dividends/profits/capital/sale proceeds of shares in foreign currency arising from investment. Such foreign currency may be sourced from the Philippine banking system if the investment is duly registered with the Bangko Sentral ng Pilipinas (“BSP”) (Central bank) or from non-bank sources if the investment is not registered with the BSP.
Singapore	Dollar	1.74565	Freely convertible; no formal foreign exchange controls. However, there are certain restrictions on credit facilities extended to non-residents in Singapore dollars.
South Korea (Republic of Korea)	Won	1,298.6	Not freely convertible; the Ministry of Finance and Economy supervises foreign exchange under the Foreign Exchange Control Regulations.
Sri Lanka	Rupee	90.05	Not freely convertible; restricted to the current account. The rupee was floated against the US\$ in January 2001.
Taiwan	Dollar	34.5975	Enterprises or individuals may not remit more than US\$5 million within one year without prior approval from the Central Bank.
Thailand	Baht	44.3	Freely convertible.
Vietnam	Dong	14,997	Not freely convertible; convertibility subject to an approval process.

Hong Kong

Regulatory bodies

- The Securities and Futures Commission (“SFC”) (<http://www.hksfc.org.hk>) authorises unit trusts and mutual funds under Section 15 of the Securities Ordinance. Its Committee on Unit Trusts considers authorisation issues and administers the Code on Unit Trusts and Mutual Funds.
- The Mandatory Provident Fund Schemes Authority (<http://www.mpfahk.org>) regulates the pension and superannuation funds industry in Hong Kong, in particular Mandatory Provident Fund (“MPF”) Schemes.

Types of funds

- Collective investment funds can be organised in Hong Kong either as unit trusts or as mutual funds, both open-ended and closed-ended. Unit trusts and mutual funds must be authorised in order to be marketed to the public in Hong Kong. Authorised unit trusts or mutual funds are classified as Equities Funds, Bonds Funds, Unit Portfolio Management Funds, Money Market/Cash Management Funds, Warrant Funds, Leveraged Funds, Futures and Options Funds and Guaranteed Funds.

Laws, rules, regulations and codes

Ordinances

- Securities Ordinance
- Securities and Futures Commission Ordinance
- Protection of Investors Ordinance
- Mandatory Provident Funds Schemes Ordinance
- The Drug Trafficking (Recovery of Proceeds) Ordinance and the Organised and Serious Crime Ordinance are also relevant to the operations of funds, as funds might be used to launder money arising from criminal activities as specified in the Ordinances.

Codes issued by the SFC

- Fit and Proper criteria (revised)
- Code of Conduct for Persons Registered with the Securities and Futures Commission (revised)
- Code on Unit Trusts and Mutual Funds
- Fund Manager Code of Conduct
- SFC Code on MPF Products
- Code on Pooled Retirement Funds

- Codes on Takeovers and Mergers and Share Repurchases

Guidelines issued by the SFC

- Management Supervision and Internal Control Guidelines for Persons Registered with, or Licensed by the SFC
- Guidelines for the Review of Internal Controls and Systems of Trustees/Custodians
- Guidance Note on Internet Regulation
- Guidance Note for Persons Advertising or Offering Collective Investment Schemes on the Internet
- Guidelines for Registered Persons Using the Internet to Collect Applications for Securities in an Initial Public Offering (“IPO”)
- Guidance Note on the Application of the Electronic Transactions Ordinance to Contract Notes
- Guidelines on Exempt Fund Manager Status under the Code on Takeovers and Mergers
- Guidelines on Exempt Principal Trader Status under the Code on Takeovers and Mergers
- Guidance Note on Competence
- Guidance Note on Continuous Professional Training
- Registration Guidelines for Intermediaries advising on securities incidental to the marketing of MPF schemes only

Listing rules

- Stock Exchange of Hong Kong Rules Governing the Listing of Securities (if listed)

Investment association

- Hong Kong Investment Funds Association (<http://www.hkifa.org.hk/>)

Updates of capital adequacy requirements, investment restrictions and foreign funds

No major changes from previous edition

Other developments

Updates of laws, rules, regulations and codes

- On 1 December 2000, the Stock Exchange of Hong Kong (“SEHK”) issued a letter to all issuers on the Main Board relaxing certain submission deadlines and contents requirements in respect of preliminary announcements of annual results.

- On 14 December 2000, the SFC published a Consultation Paper on the Regulation of On-line Trading of Securities and Futures, which contained proposals to expand the Guidance Note on Internet Regulation which was issued in June 1999.
- On 15 December 2000, the SFC issued the revised Fit and Proper Criteria. In addition, on 29 June 2001, the SFC reissued the Guidance Note on Competence and the Guidance Note on Continuous Professional Training (“CPT”). These supplement the Fit and Proper Criteria and provide more detailed guidance on how the SFC will administer the competence and CPT requirements. The two Guidance Notes provide guidance to the industry on the new competence and CPT requirements for applicants and licensees.
- On 21 February 2001, the SFC issued the Revised Code of Conduct for Persons Registered with the SFC. The SFC recognises that conduct of business principles should be flexible enough to differentiate between professional and non-professional investors and some provisions of the Revised Code of Conduct need not be observed in the case of professionals. The revised Code of Conduct became effective on 1 April 2001 with the exception of a few paragraphs relating to telephone recording and client agreements which take effect on 1 October 2001.
- On 23 February 2001, the SFC published for consultation six draft forms for use by persons, such as substantial shareholders, directors or chief executives, when giving notice of their interest in a listed company under Part XV of the Securities and Futures Bill when it becomes law.
- On 7 March 2001, the SFC issued a Consultation Paper on New Investor Compensation Arrangements for the securities and futures markets in Hong Kong. The main proposed arrangements are:
 - to set a per investor compensation limit which would initially be \$150,000, rather than the present per claim limit of \$8million;
 - to provide coverage for Hong Kong Exchanges and Clearing (“HKEx”) participants and non-exchange participants who are licensed securities dealers, licensed commodity dealers, licensed margin financiers and exempt dealers (authorised institutions under the Banking Ordinance) and who trade in HKEx products; and
 - to derive the funding from a transfer of assets from the existing compensation funds (after retaining an amount required to pay prior claims made), plus additional funds resulting from an increase of 0.002% in the levy on transactions executed on the SEHK.
- On 22 March 2001, the SFC published a Consultation Paper on Draft Guidelines for the Regulation of Automated Trading Services (“ATS”). The consultation paper summarised the legislative framework and set out the principles, procedures and standards for the regulation of ATS. The paper also discussed seven core standards that a person providing ATS is generally expected to meet.
- On 28 March 2001, the SFC released for public consultation its proposed disciplinary fining guidelines. According to the proposed guidelines, the SFC generally regards improper conduct as more serious if it is intentional or reckless, damages the integrity of the market, causes loss to or imposes costs on others, or provides a benefit to the firm or individual engaged in that conduct and their related parties. Perhaps more importantly, the SFC will consider all the circumstances of each case, including the nature and seriousness of the conduct, the amount of profits accrued or loss avoided, the size, financial resources and other circumstances of the firm or the individual, and other relevant factors.

- On 30 March 2001, the Companies Ordinance (Exemption of Companies and Prospectuses From Compliance with Provisions) Notice was gazetted. The Notice contains four classes of exemptions relating to offerings to professional investors only; the bilingual prospectus requirement; the accounting period for Growth Enterprises Market companies; and the valuation of operating leases. This Notice came into operation on 11 May 2001.
- On 10 April 2001, the SFC announced amendments to the Code on Takeovers and Mergers relating principally to Exempt Fund Managers (“EFM”) and Exempt Principal Traders (“EPM”). The exemptions mean that the relevant EFMs and EPTs are not normally regarded as acting in concert with corporate clients. The amendments became effective on 1 May 2001. In addition, on the same date the SFC issued a Consultation Paper on a Review of the Codes on Takeovers and Mergers and Share Repurchases. The major proposals are:
 - reorganising the Share Repurchase Code;
 - revising the trigger (which is the level of control of a company that triggers a mandatory offer for an acquiring shareholder) and the creeper (within which a controlling shareholder may increase its shareholding without triggering a mandatory offer) to 30% and 2% respectively;
 - rationalising the voting requirements for schemes of arrangement to acquire or privatise a company and for delisting a company;
 - clarifying the level of acceptance for compulsory acquisitions; and
 - strengthening the requirements for asset valuations.
- On 12 April 2001, the SFC released for public consultation the draft Securities and Futures (Client Securities) Rules and the draft Securities and Futures (Client Money) Rules. These will come under the ambit of the Securities and Futures Bill when enacted. The draft Client Securities Rules prescribe how an intermediary or its associated entity should deal with securities deposited by its client in Hong Kong, whether in safe custody or as collateral. The draft Client Money Rules do not apply to exempt persons or associated entities which are authorised financial institutions.
- On 4 May 2001, the SFC published a Guidance Note for Persons Advertising or Offering Collective Investment Schemes on the Internet to provide regulatory guidance to fund management companies and other financial intermediaries who advertise or offer collective investment schemes through the Internet to the investing public in Hong Kong.
- On 20 July 2001, the SFC published for public consultation proposed new provisions on index funds for incorporation into the Code on Unit Trusts and Mutual Funds and provided clearer guidance to the industry on the authorisation of index funds in order to facilitate market development and ensure the protection of investors.

Market developments

- On 29 November 2000, the SEHK announced the introduction of the first batch of Multi-workstation Systems (“MWS”) of AMS/3, the Third Generation Automatic Order Matching and Execution System, over a two-week period starting on 4 December. MWS are trading facilities offered by the SEHK which enable more than one person to trade using a single trading facility. MWS also enable Exchange Participants to provide additional services to their clients such as automatic notification of trade results. In addition, Exchange Participants can use MWS and the

Order Routing System, which was introduced on 23 February 2001, to provide electronic trading services to investors through the Internet, mobile phones, and other electronic channels.

- On 11 December 2000, HKEx signed a Memorandum of Understanding in Sydney with the Australian Stock Exchange. The Memorandum of Understanding was a statement of intent by the Australian and Hong Kong markets to exchange market surveillance information. This will enable the exchanges to enhance market integrity.
- On 4 April 2001, HKEx made an announcement proposing to remove the SEHK's portion of the transaction levy (0.005%) and to introduce instead an SEHK trading fee at the same rate of 0.005% per side of the consideration of a transaction.
- On 18 April 2001, HKEx announced that a new market structure for Exchange Traded Funds (“ETF”) had been developed. ETF are open-ended mutual funds or unit trusts which are listed or traded on stock exchanges. Investors can buy or sell them like ordinary stocks through their brokers during trading hours. Under the new structure, ETF can be listed on the SEHK or elsewhere and then admitted to the SEHK under a “trading only” arrangement. Automatching on AMS/3 can be supported by the operations of market makers.

India


Regulatory bodies

- Reserve Bank of India (“RBI”) (<http://www.rbi.org.in/>)
- Securities and Exchange Board of India (“SEBI”) (<http://www.sebi.com/>)

Types of funds

- Unit trusts
- Mutual funds (both open-ended and closed-ended)

Laws, rules, regulations and codes

- Securities Contracts (Regulation) Act 1956
- SEBI (Mutual Funds) Regulations 1996 (amended by SEBI in 1997, 1998 and 1999)
-  RBI Guidelines for Money Market Mutual Funds
- Indian Trusts Act 1982 (requires that all funds are in the form of trusts)

Investment association

- Association of Mutual Funds in India (“AMFI”) (<http://www.amfiindia.com>)



Updates of capital adequacy requirements, investment restrictions and foreign funds

No major changes from previous edition

Other developments

Updates of laws, rules, regulations and codes

Budget

- A new provision has been introduced to bring into the tax ambit the notional short term capital loss booked by investors on mutual funds. According to this provision, if an investor acquires mutual fund units more than three months prior to the dividend record /distribution date and sells or transfers these units within a period of three months after the record date and obtains dividend income that is exempt from tax, then the capital loss arising from the purchase and sale will be ignored to the extent of the amount received as a tax free dividend.

This should help to encourage long term investment in mutual fund units as it is expected to considerably reduce the sharp, short term movement of funds into open-ended equity oriented mutual funds. The provisions became effective on 1 April 2001.

- Dividend distribution tax has been reduced to 10.2% from 22.4% inclusive of the surcharge for Debt/Income mutual fund schemes with effect from 1 June 2001.

This move is expected to lead to greater flow into the dividend option of income schemes. This is because the earlier long term capital gains tax rate was 11.2% (without indexation). This led to investors preferring the growth option as the effective tax rate was lower. However as the difference in the net returns (adjusted for taxation) is now marginal, investors will probably now move to the dividend option.

- The budget has removed the surcharge chargeable to income tax. The short term capital gains tax rate is now 30.6% compared to 35.1% previously. The long term capital gains tax rate (with indexation benefits) is now 20.4% compared to the previous 22.4%. The long term capital gains tax rate (without indexation benefits) is now 10.2% compared to 11.2% previously.
- The long term capital gains made on sales of mutual funds will be exempt from capital gains tax provided the capital gains are invested in primary market issues that are open for public subscription and are not sold within one year from the date of acquisition.
- The budget amended Section 10 (33) of the IT Act so that any income arising from the transfer of units of the Unit Trust of India (“UTI”) or mutual funds by unit holders to persons other than UTI or mutual funds will be taxed. This provision applies with retrospective effect from 1 April 1999. This clarificatory amendment has been introduced to avoid misuse of the income tax provisions whereby capital gains on transfers of mutual funds and UTI units in secondary markets were claimed as exempt by investors.
- Other provisions affecting the mutual fund industry include:
 - Cut in the small savings interest rate by 1.50%;
 - Deductions available for interest income under Section 80L maintained at Rs12000 of which Rs3000 are exclusively available for interest received from government securities;
 - Tax Deduction at Source limit for interest income exceeding Rs5000 now applicable to all categories of deposits (including deposits with financial institutions); and
 - Measures for strengthening the debt market includes setting up of a clearing corporation for the orderly development of the money market (including repos), and the government securities market; setting up of an electronic negotiated dealing system to facilitate transparent electronic bidding in auctions and dealings in government securities on a real time basis; and introducing Electronic Funds Transfer and Real Time Gross Settlement Systems by RBI.

These measures are expected to lead to a shift in investor preference to debt/income based mutual funds due to the higher returns (net of taxes) available to investors. Government securities based mutual funds will benefit the most from the reforms undertaken in the debt market.

- The Government has amended the Finance Bill 2001 so that income accruing to unit holders of UTI or any mutual fund from the redemption of their units is now taxable. This classificatory amendment had become necessary as there was a drafting error in the original Bill, which led to the interpretation that income arising from the transfer of units of UTI or other mutual funds by unit holders to persons other than UTI or such mutual funds alone would not be taxable.

This amendment is applicable with retrospective effect from the assessment year 1 April 2000. Any gains arising out of the redemption or transfer of units to other persons will now attract tax. This is applicable for all kind of sales/transfers, irrespective of whether the units are transferred to or redeemed from UTI or any other mutual fund or any other person.

Reforms by SEBI

- The decision of SEBI to ban all forms of carry forward trading including badla (the traditional system of carrying forward transactions) with effect from 2 July 2002 is expected to benefit debt mutual funds. It is believed that high net worth individuals and corporates are now likely to shift their funds from badla financing into income and cash mutual funds, which offer higher returns with greater safety of capital. The returns on badla have dropped to 7%-8% (annualised) recently compared to the 9%-12% annual returns offered by debt funds.
- SEBI has modified the circular directing all mutual funds to recover brokerage paid on investments made by associates of mutual funds since the inception of the schemes. In the latest circular SEBI restricts mutual funds to paying brokerage or commission to agents/distributors only when such investments are made by sponsors in their mutual fund schemes. This is in line with the current Mutual Fund Regulations 96 where investments made by sponsors in their mutual funds are also not eligible for the charging of an asset management fee. The restriction on paying brokerage on investments by sponsors was applicable with effect from 30 April 2001.
- The Finance Ministry has now authorised SEBI to grant approval for the launching of offshore funds by mutual fund houses. UTI, LIC and Canbank are some of the few mutual fund houses that have already launched offshore funds.

Reforms by RBI

- The technical group of RBI has recommended that lending in the call money market by financial institutions, including mutual funds and insurance companies, be reduced in three stages. In the first stage, they should be permitted to lend up to 70% of their average daily lendings during the financial year 2001 for a three-month period. This should be reduced to 40% in the second stage and in the last stage it must be reduced to 10% for a three-month period. The three-month time period will enable these participants to get familiar with the operations of a clearing corporation. Currently there are about 40 mutual fund players operating as lenders in the call money market.

On 30 June 2001, the group also recommended that the practice of corporates routing their call lendings through primary dealers should be stopped with immediate effect. It also arrived at the consensus that non-bank participants should not have access to routing funds through primary dealers. These entities should offer their funds now with primary dealers through inter-corporate deposits instead. With the phasing out of non-bank players, the group expects the repo/reverse repo market to emerge as a vibrant, short-term money market for both banks and corporates.

Reforms by AMFI

- A sub-committee set up by AMFI has drawn up the first prototype for introducing real estate mutual funds in India. Real Estate Investment Scheme ("REIS") norms suggest that real estate mutual fund schemes will essentially be closed-ended schemes. It has also been suggested that a typical closed-ended REIS should be made into an interval fund open regularly for pre-determined periods at a subsequent date. AMFI has suggested that the Indian REIS will not follow the Real Estate Investment Trust model that is prevalent in the US in any respect and these schemes should operate within the existing trust structure.

AMFI has recommended that sponsors of real estate schemes should have a minimum of five years of experience in real estate management. It has also suggested that mutual funds without experience in real estate management could hire outside advisors. These advisors should have a minimum net worth of Rs0.25bn and at least five to seven years experience in real estate. These recommendations form the guidelines of the report prepared by AMFI for the purposes of introducing real estate mutual funds which has been submitted to SEBI for approval. SEBI and AMFI are expected to jointly work out the guidelines on the valuation of assets, which will clear the way for the introduction of real estate funds.

Reforms by Institute of Chartered Accountants of India

- The Institute of Chartered Accountants of India (“ICAI”) has issued a guidance note on accounting for investments in the financial statements of mutual funds. The guidance note states that mutual fund investments should be marked-to-market to arrive at a current net asset value of the units. Currently the SEBI 1996 Regulations on mutual funds allow investments to be valued at cost, with the market value being shown separately. However, a reconciliation statement of the difference in value of the investments has to be provided in the financial statements. The guidance note is in accordance with the ninth schedule to the Mutual Fund Regulations 1996, which requires mutual funds to mark all investments to market. The latest guidance note is, however, not applicable to UTI as the latter is governed by the Unit Trust of India Act, 1963.

Market developments

- UTI managed Rs55,924 crores in assets as at 30 June 2001, representing about 57% of the mutual fund industry's total assets. It had around 41 million investor accounts in its range of 87 funds (UTI has to date launched over 100 schemes).

US-64, an open-ended balanced fund, is UTI's flagship fund. Launched in 1964, it is the oldest fund and had Rs12,778 crore in assets under management as at 30 June 2001. This amount, even after substantial erosions in its total assets, accounts for 13% of the entire Indian mutual fund industry. Established under the UTI Act, US-64 has not been accountable to SEBI, which functions as the watchdog for financial markets.

On 2 July 2001, UTI announced a ban on the redemption and sale of units in US-64. This announcement effectively converted US-64 from an open-ended fund to a closed-ended one in which investors would be trapped for the next six months.

Following severe criticism, UTI has finally decided to lift the freeze. UTI has managed to get loans from financial institutions and insurance agencies such as LIC and IDBI along with several other bodies of Rs3,000 crore. The shares held by UTI in the scheme will be held as collateral. As UTI still needs around 1,300 crore, it has decided to fall back on its development reserve and will be transferring its real estate and other assets at market values to the fund in order to bridge the gap. Under the new arrangement, UTI will allow individual redemptions of up to 3,000 units by small investors. The repurchase price for this purpose has been fixed at Rs10 per unit. UTI has also decided to shift to NAV-based pricing from January 2002, just before its deadline (provided under the Deepak Parekh committee) of three year ends.

To ensure that investors remain with the scheme, UTI has specified that the fund will be repurchased at NAV or the repurchase price as announced, whichever is higher, after it becomes NAV-based. Since this conversion is in January 2002, redeeming now would mean losses for investors. Even after conversion, UTI will continue to add 10 paise per month to the repurchase

price until August 2003. This means that even if the market does not rebound quickly, investors will still get an assured return. UTI is not expecting to face huge redemption pressure as the scheme has a lot of support from investors and this will also give it enough time to realign its portfolio. Staying with the fund would be profitable for investors as well, as they will still get more than the worth of their investments. On the other hand, UTI has reduced the value of investments made last year (at around Rs14) to Rs10.

The above mechanism is awaiting RBI's approval.

- Standard Chartered bank has received the necessary approvals to acquire the shareholdings of ANZ in ANZ Asset Management Company Pvt Ltd and ANZ Grindlays Trustee Company Pvt Ltd. The Asset Management Company ("AMC") and the trust are to be renamed Standard Chartered AMC and Standard Chartered Trustee Company Pvt Ltd respectively. The bank, after taking over the Indian operations of ANZ Bank, also acquired its asset management company. The new sponsor of the Mutual Fund will be Standard Chartered Bank, UK. Unit holders of the schemes were given an exit option in line with the SEBI Regulations without an exit charge till 23 March 2001
- Canbank Mutual Fund has taken steps towards offering a stake in its asset management company. The mutual fund has initiated preliminary talks with leading international players, such as Commerzbank of Germany, and is currently working out the modalities. Canbank AMC currently manages 13 schemes and has net assets of nearly Rs7bn.
- The Housing Development Finance Corporation ("HDFC") Mutual Fund is divesting a 26% stake in its AMC to the UK insurance major Standard Life. Standard Life, which has received FIPB approval to take a 26 per cent stake in HDFC's AMC, is acquiring the stake through its subsidiary, Standard Life Investments. The AMC is currently a 100% subsidiary of HDFC and has a paid up capital of Rs0.20bn.
- Citigroup is planning to enter the mutual fund business by setting up its own AMC in India. The company has completed a market survey and will base its decision on stock market conditions.
- Deutsche Bank is another foreign bank planning to enter the mutual funds business through its subsidiary, Deutsche Bank AMC. It plans to introduce an open-ended equity fund and a debt fund.
- BNP Paribas, a French banking conglomerate, is reportedly eyeing a stake in the SBI Mutual Fund. BNP Paribas is already involved with SBI in its insurance business. BNP manages over 76 funds in over 20 countries, with funds under the Parvest brand worth Euro 15 billion worldwide
- The Hongkong and Shanghai Banking Corporation is planning to enter the mutual fund business by launching schemes in October. It plans to enter the mutual business through a subsidiary company and is currently awaiting SEBI and Foreign Investment Promotion Board approval.

Indonesia

Regulatory body

- The Capital Market Supervisory Agency (Bapepam) (<http://www.bapepam.go.id>), an arm of the Ministry of Finance, supervises the securities industry.

Types of funds

- Open-ended or closed-ended mutual funds can be in the form of collective investment agreements (known as Kontrak Investasi Kolektif) or limited liability companies (known as Perseroan Terbatas).

Laws, rules, regulations and codes

- The capital market and mutual funds are regulated by the Capital Market Law (Law No. 8/1995).
- The Indonesian Company Law (Law No. 1/1995) regulates limited liability companies (which include mutual funds in company form). Only companies registered under this law are allowed to be mutual funds in Indonesia.

Investment association

- Association of Investment Managers

Updates of capital adequacy requirements, investment restrictions and foreign funds

No major changes from previous edition



Other developments

Updates of laws, rules, regulations and codes

- Two regulations were issued by Bapepam during the first five months of 2001. These relate to restrictions on shares issued prior to an initial public offering, and material transactions and changes in business lines of public companies.

Market developments

- Stock exchange trading volumes and values showed no significant improvement in the first five months of 2001. Stock exchange transactions were dominated by local investors.
- Following a significant decrease in stock prices, the Jakarta Stock Exchange has announced some essential regulations with respect to stock trading:
 - An increase in the number of shares per lot of the trading stock of publicly listed banks: previously 500 shares per lot, now 5000 shares per lot.

- A decrease in the spread for shares with a market price below Rp 500, which was previously Rp 25 per increase/decrease, and is now Rp 5.
- Some Jakarta Stock Exchange members are now able to allow their customers to trade stocks through the Internet.
- Scripless trading has been implemented for 162 issuers as of 11 July 2001.
- The Jakarta Stock Exchange now allows equity listing to be done either through the primary board or the development board. The latter has significantly fewer and less onerous requirements than the main board.

Japan

Regulatory bodies

- Financial Services Agency (<http://www.fsa.go.jp/>)
- Securities and Exchange Surveillance Commission (<http://www.fsa.go.jp/sesc/sesc-e.html>)
- Ministry of Finance (<http://www.mof.go.jp/>)
- The Ministry of Health, Labour and Welfare (<http://www.mhlw.go.jp/>) oversees Employee Pension Funds. The Ministry of Health and Welfare merged with the Ministry of Labour on 6 January 2001.

Types of funds

- Open-ended and closed-ended
 - Contractual type
 - Company type

Laws, rules, regulations and codes

- Securities and Exchange Law (“SEL”)
- Investment Trust and Investment Company Law
- Rules of the Ministerial Ordinance pursuant to the SEL Concerning Disclosure of Specified Securities
- Investment Advisory Law
- Self-regulatory rules set by the Investment Trust Association and the Japan Securities Investment Advisers Association.

Investment associations

- The Investment Trust Association, Japan (<http://www.toushin.or.jp>)
- Japan Securities Investment Advisers Association (<http://www5.mediagalaxy.co.jp/jsiaa/>)

Updates of capital adequacy requirements, investment restrictions and foreign funds

No major changes from previous edition

Other developments

Updates of laws, rules, regulation and codes

- The Japanese 401k plan (defined contribution pension plans) will be introduced in October 2001. The bill on defined contribution pension plans became law on 23 June 2001.
- The legislation on Japanese Real Estate Investment Trusts was passed in November 2000. The first fund is to be listed on the Tokyo Stock Exchange in September 2001. The planned fund amount will be over 400 billion yen within the fiscal year 2001.
- The accounting standards set out for pension funds by the Pension Fund Association were changed to mandate trade date accounting and mark-to-market accounting in April 2001.

Market developments

- As at May 2001, there was approximately 60 trillion yen in investment trust management funds as follows (in trillion yen):

Equities	¥	15
Bonds		26
Money management funds		19
	¥	<u>60</u>

- Exchange Traded Funds of Nikkei Average and TOPIX types were listed on the Tokyo Stock Exchange and the Osaka Stock Exchange on 13 July 2001. The volume of the trades on the first day was about 10 billion yen.
- The Japan Securities Depository Centre will start services for the deposit and delivery of convertible bonds from November 2001. This should diminish the settlement risk and improve efficiency.
- BOJ Net for Japanese government bond settlement introduced Real Time Gross Settlement in January 2001.
- The Government Pension Investment Fund was established on 1 April 2001, replacing the Pension Welfare Service Public Corporation (Nempuku).
- Matsushita Electric Industrial Pension Fund, one of the largest pension funds in Japan, started self-management of investments in April 2001, moving 35 billion yen, out of a total of 850 billion yen, from index investment management into Japanese stocks. This is the first self-managed investment scheme to be set up by a pension fund after the pension reform law removed the ban in June 2001.

Malaysia

Regulatory body

The Securities Commission (“SC”) (<http://www.sc.com.my>)

- has assumed, from 1 July 2000, the regulatory functions previously carried out by several bodies relating to all fund raising activities, as a result of amendments made to the Securities, Company and Banking Acts;
- through the Securities Commission (Amendment) Act 2000, has become the sole regulator of corporate bonds, previously a function of the central bank, Bank Negara Malaysia (<http://www.bnm.gov.my>);
- has assumed the central bank’s role as the approving authority for the issuance of private debt securities, including the registration of prospectuses relating to issues; and
- has assumed new authority to register and approve listings and other prospectuses, which previously came under the purview of the Registrar of Companies.

Types of funds

- Investment company
- Closed-ended fund
- Unit trust scheme

Laws, rules, regulations and codes

- Securities Industry (Central Depositories) Act 1991
- Securities Commission Act 1993 (“SCA”)
- Futures Industry Act 1993
- Securities Commission (Amendment) Act 1995
- Securities Industry (Amendment) Act 1996
- Guidelines on Unit Trust Funds
- Guidelines on Reporting Requirements for Fund Managers
- Guidelines on the Establishment of Foreign Fund Management Companies
- Guidelines for Public Offerings of Securities of Closed-ended Funds
- Practice Notes - Guidelines on Unit Trust Funds (in Malaysian Code on Take-overs & Mergers - Practice Notes)

- Banking and Financial Institutions Act 1989
- Companies Act, 1965
- Companies (Amendment) Act 2000
- Securities Commission (Amendment) Act 2000

Investment association

- Federation of Malaysian Unit Trust Managers (<http://www.fmutm.com.my>)

Updates of capital adequacy requirements, investment restrictions and foreign funds

- Revisions to the Foreign Fund Management Companies Guidelines (“FFMC Guidelines”) have been made to reflect policy changes and developments that have occurred in the financial markets recently. In addition, the SC has restructured and reformatted the FFMC Guidelines and also clarified and amplified certain clauses for easy reading and reference.

In making these revisions, the SC has taken into consideration comments and suggestions made by relevant market participants from the fund management industry. The revised FFMC Guidelines are available at the SC’s homepage (<http://www.sc.com.my>).

Other developments

Updates of rules, regulations and codes

Updated list of securities approved by the SC

- The Syariah Advisory Council of the SC has approved and classified an updated list of securities of the following types from companies whose activities are not contrary to the Syariah principles.
 - Ordinary shares
 - Warrants
 - Transferable subscription rights

SC guidelines, regulations and practice notes

Since its inception, the SC has been in the process of reviewing existing guidelines and formulating new policies. The following new guidelines, regulations and practice notes were introduced with effect from 1 January 2001:

- Issue/Offer of Securities
 - Amendments to the Historical Profit-Performance Requirements for Initial Public Offerings and Reverse Take-overs/Back-door Listings on the Kuala Lumpur Stock Exchange (“KLSE”) (Issued: 10 May 2001)
 - Guidelines on the Issuance and Listing of Irredeemable Convertible Unsecured Loan Stock (“ICULS”) as Part of a Flotation Scheme on KLSE (Issued: 10 May 2001)

- Guidelines on the Preferential Allocation of Securities to Directors and Employees and/or Other Persons in relation to Initial Public Offerings on KLSE (Issued: 10 May 2001)
- Guidelines on Bonus Issues (Issued: 10 May 2001)
- Guidelines on Employee Share Option Schemes (Issued: 10 May 2001)
- Debt Securities
 - Guidelines on the Offering of Asset-Backed Debt Securities (Issued: 11 April 2001)
 - Practice Note 1 - Application of the Guidelines on the Offering of Private Debt Securities to the Offer, Issue or Invitation of Foreign Currency Denominated Private Debt Securities (Issued: 8 February 2001)
- Others
 - Guidelines on Offer Documentation (Issued: 25 April 2001)
 - Guidelines for a Universal Broker (Amended as at 9 February 2001)

In addition to the above, the SC has introduced several flexibilities to facilitate the issue, offer and listing of securities by Malaysian companies. These flexibilities are effected through changes and amendments made to certain existing requirements in the SC's "Policies and Guidelines on Issue/Offer of Securities".

These changes are part of the overall objectives and recommendations in the Capital Market Masterplan to make the Malaysian capital market the preferred fund-raising centre for Malaysian companies and to enhance the efficiency of the overall fund raising process. In liberalising the regulatory criteria in these areas of issue, offer and listing of securities, the SC has taken note of the less restrictive regulatory framework in other benchmarked jurisdictions, namely, the United States of America, the United Kingdom, Australia, Hong Kong and Singapore. The flexibilities introduced are set out in the table below and are effective immediately.

CURRENT	FLEXIBILITY
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Companies seeking to list on KLSE must fulfil the historical profit-performance requirement based on either a 3-year or 5-year track record.	A 4-year track record has been added.
The issuance and listing of ICULS by companies is generally not allowed.	Allowed provided the newly-introduced requirements of ICULS are complied with.
A company seeking to list on KLSE is allowed to allocate up to 5% of its issued and paid-up capital under a preferential allocation scheme. It was previously limited to 10,000 shares per person.	The 5% overall limit of preferential allocation is retained; the limit of 10,000 shares per person has been removed.
A company listed on KLSE must fulfil the merit-based criteria set by the SC in undertaking bonus issues of securities.	Listed companies and those seeking to list are allowed to undertake bonus issues of securities without having to fulfil the previously-stipulated merit-based criteria.
<p>SC's Guidelines on Employee Share Option Schemes (ESOS):</p> <ul style="list-style-type: none"> a) 500,000 share limit per person allocated to directors and employees; and b) ESOS operational for a maximum period of 5 years. 	<p>ESOS revisions:</p> <ul style="list-style-type: none"> a) removal of the 500,000 share limit per person; any amount is allowed; b) maximum period of 10 years; and c) ESOS may be terminated in mid-stream, provided by-laws contain a termination clause.

Revamped KLSE Listing Requirements

The KLSE released its revamped Listing Requirements on 22 January 2001. The SC, as Secretariat to the Finance Committee on Corporate Governance, has described the revamped Listing Requirements as promoting better corporate governance among public listed companies. The following amendments were made:

- New requirements have been introduced to raise the standard of conduct of directors and officers of publicly listed companies. Malaysian companies are required to rethink business culture and reinvent their processes and attitude towards issues of corporate governance, transparency and accountability.
- Compliance with the voluntary Malaysian Code on Corporate Governance (released in March 2000) ("the Code") is strongly encouraged. Disclosures required by the new listing requirements in relation to the Code are mandatory.
- Listed companies are required to state in their annual reports how they have applied the principles in Part 1 of the Code and the extent to which they have complied with the best practices in Part 2 of the Code.
- Investors are allowed to monitor the way the companies to which they have entrusted their funds are being run, while allowing for some flexibility on the part of the companies in implementing the Code.

- Directors of publicly listed companies are to be accredited with RIIAM (Research Institute of Investment Analysts Malaysia) under its Mandatory Accreditation Programme.
- Recommendations include amendments to the SCA and the SC's Policies and Guidelines on the Issue/Offer of Securities (Issues Guidelines).

Compliance with approved accounting standards

- On 16 April 2001, the SC reminded publicly listed companies that financial statements for the period ended 30 June 2000 onward must comply with Malaysian Accounting Standards Board ("MASB") standards including MASB 5 - Cash Flow Statements, which has replaced IAS 7 - Cash Flow Statements, and is consistent in all material respects with IAS 7. The SC is currently reviewing the extent of compliance with MASB 1 - Presentation of Financial Statements and MASB 5.

Market developments

- Capital Market Masterplan was launched on 22 February 2001. It will set the strategic position and future direction of capital market development for Malaysia. The objectives of the Masterplan are:
 - To be the preferred fund-raising centre for Malaysian companies;
 - To promote an effective investment management industry and a more conducive environment for investors;
 - To enhance the competitive position and efficiency of market institutions;
 - To develop a strong and competitive environment for intermediation services;
 - To ensure a stronger and more facilitative regulatory regime; and
 - To establish Malaysia as an international Islamic capital market centre.
- In an effort to cut KLSE transaction costs, the SCANS (Securities Clearing Automated Network Services) clearing fee, the SCORE (System on Computerised Order Routing and Execution) fee and the SC levy have been lowered effective 1 July 2001.

Pakistan

Regulatory body

- Securities and Exchange Commission of Pakistan (“SECP”) (<http://www.secp.gov.pk>)

Types of mutual funds

- Open-ended mutual fund
- Closed-ended mutual fund

Laws, rules, regulations and codes

- The Securities and Exchange Ordinance 1969
- The Investment Companies and Investment Advisers Rules 1971 (“the ICIA Rules”)
- The Companies Ordinance 1984
- The Asset Management Companies Rules 1995 (“the AMC Rules”)
- The Companies (Issue of Capital) Rules 1996
- The Securities and Exchange Commission of Pakistan Act 1997

Investment association

- Mutual Funds Association of Pakistan (<http://www.mufap.com>)

Updates of capital adequacy requirements, investment restriction and foreign funds

Asset Management Companies: 30 Million Rupees

Other developments

Updates of laws, rules, regulations and codes

The SECP has amended the ICIA Rules and the AMC Rules. These amendments allow the securities depository to act as custodian for closed-ended mutual funds, and rationalise existing provisions of the law.

Amendments to the ICIA Rules

- A new definition of ‘connected persons’ has been included as follows:
 - “any person or company beneficially owing, directly or indirectly 10% or more of the ordinary share capital of an investment company or investment advisor of the company, or who is able to exercise, directly or indirectly, 10% or more of the total votes in that company or investment advisor;

- any person or company controlled by a person who meets one, or both, of the descriptions given in sub-clause (i);
 - any member of the group of which that company forms a part; or
 - any director or officer of that company or that company's investment advisor or of any of their connected persons specified in sub-clause(i) (ii)and (iii).”
- An application processing fee, for registration as an investment company, of Rs25,000 has been introduced.
 - In rule 6, the exposure limit of an investment company (earlier based on an amount sufficient to acquire 10% of any class of securities of an investee company) has now been changed to 10% of the issued capital of the investee company.

The ICIA rules further enable SECP to relax any or all conditions, on application by an investment company, if the investment company has been established for a specific investment objective, where the intention to that effect has been expressed in the prospectus.

- Remuneration payable to an investment advisor has been enhanced as follows:
 - during the first five years from 2% to 3%; and
 - thereafter from 1% to 2%.
- Under rule 17, every investment company has been directed to provide the prescribed information in respect of the net asset value of securities issued by it, to the stock exchange, SECP, etc. within the specified time frame.

Amendments to the AMC Rules

- Rule 10, sub-rule (2), clause (e)

One of the conditions for authorisation of a scheme was an undertaking from the management company that it will invest or arrange the investment of 250 million rupees for a minimum period of two years. This has been amended by the addition of a further paragraph stating:

“Provided that the Commission may reduce this requirement to fifty million rupees, where the management company has a good performance record with an average seventeen and half percent total annual return or an average twelve and half percent dividend payment in respect of schemes under its management for the previous three years, and for the purpose of this clause “total annual return” shall mean dividend pay out and appreciation in the value of units on the date of preparation of accounts”.

- Rule 13, sub rule (4)

No scheme shall invest more than 25% of its net asset value in the securities of any one sector as per the classification of the stock exchange:

“Provided that the Commission may, on application by the asset management company, relax any or all the requirements of this rule in case of any scheme established for a specified investment objective where the intention to that effect was expressed in the offer document.”

Market developments

No major changes from previous edition

People's Republic of China

Regulatory bodies

- The China Securities Regulatory Commission ("CSRC") (<http://www.csrc.gov.cn/>)

Types of funds

- Closed-ended funds which can only invest in stocks listed on the People's Republic of China ("PRC") exchanges and in PRC government bonds
- Open-ended funds

Laws, rules, regulations and codes

- Provisional Measures of the Administration of Securities Investment Funds
- Implementation rules of the Provisional Measures of the Administration of Securities Investment Funds
- Securities Investment Funds Listing Rules on Stock Exchanges
- Securities Law

The CSRC has also issued a number of rules, regulations and notices relating to the management and operation of China's investment fund market.

Investment association

No investment association in the PRC.

Updates of capital adequacy requirements, investment restrictions and foreign funds

At present, direct foreign participation in China's investment fund management industry is prohibited. Upon WTO accession, foreign fund management companies are expected to be permitted to own up to 33% of PRC fund management companies, rising to 49% in three years.

Other developments

Updates of laws, rules, regulations and codes

- A draft of the long-debated investment funds law is expected to be reviewed by the People's Congress in the second half of 2001. This law focuses on the establishment of a legal framework for the PRC's open-ended funds.

Market developments

- All existing funds in China are closed-ended. As of 30 June 2001, there were 36 closed-ended funds listed on the Shanghai and Shenzhen stock exchanges with a total market capitalisation of approximately USD 10 billion. This compares with the total market capitalisation of China's stock markets at that date of USD 648 billion.
- The government has been encouraging the development of open-ended funds which have no size limit to help boost market liquidity. The establishment of the first two open-ended funds by Huaan Fund Management and Southern Fund Management has been approved by the CSRC. Applications by four other open-ended funds are being evaluated by the CSRC.
- More foreign financial institutions have entered into sino-foreign co-operative agreements with PRC fund management partners, in an effort to tap into China's vast domestic savings market which is estimated at over USD 750 billion.

Philippines

Regulatory bodies

- The Securities and Exchange Commission (“SEC”) (<http://www.sec.gov.ph>) is the regulator and licensing body for mutual funds.
- The Bangko Sentral ng Pilipinas (“BSP”) (<http://www.bsp.gov.ph>) is the regulator of common trust funds.

Types of funds

- Open-ended and closed-ended mutual funds of investment companies
- Common trust funds established by banks and other authorised financial institutions

Laws, rules, regulations and codes

- Code of Conduct for traders and salesmen implemented by the Philippine Stock Exchange (“PSE”) (<http://www.pse.org.ph/>)
- Securities Regulation Code of 2000
- The Investment Company Act
- The Corporation Code of the Philippines
- The Financing Company Act
- The Partnership Law
- The Investment Houses Law
- The Omnibus Investments Code as amended by Republic Act No. 8756
- Republic Act No. 8791, otherwise known as The General Banking Law of 2000
- Foreign Investments Act
- New Retail Trade Act
- New Electronic Commerce Act

Investment associations

- Investment Company Association of the Philippines
- Fund Managers Association of the Philippines

Updates of capital adequacy requirements, investment restrictions and foreign funds

No major changes from previous edition

Other developments

Updates of laws, rules, regulations and codes

- The BSP issued Circular Nos. 271-285 during the first half of 2001. Among the more important issues are:
 - CN 273 - Partial lifting of the general moratorium on the licensing of new thrift and rural banks to allow the entry of microfinance-oriented banks.
 - CN 277 - Moratorium on the establishment of commercial banks within three years from 13 June 2000, as provided under the General Banking Law of 2000.
 - CN 279 - Requiring banks and non-bank financial institutions under the supervision of the BSP to phase out in a year all “numbered, anonymous or fictitious” accounts to address the issue of money laundering.

Market developments

Investment trends in the Philippines

- According to a report by the Department of Trade and Industry, investments approved by the Board of Investments and the Philippine Economic Zone Authority reached P51.01 billion in the period from January to mid-June this year, up 90% from P26.81 billion during the same period last year.

Measures by SEC that affect investments

- The SEC has announced it will accept new applications this year to create a futures exchange. It is also drawing up the implementing rules and regulations for establishing innovative trading markets such as electronic communications networks as required under the Securities Regulations Code.
- The SEC has exempted from the “tender offer rule” acquisitions of listed firms made in relation to foreclosure and rehabilitation proceedings by the company’s creditors and involving duly constituted pledges or security arrangements. Under the “tender offer rule,” a person is mandated to offer to buy the shares held by the minority shareholders of a listed company if he intends to acquire at least 15% of the company.

Bureau of Internal Revenue orders stockbrokers to shift to the new tax scheme

- The Bureau of Internal Revenue has ordered stockbrokers to shift to the 7% gross receipts tax instead of the 10% value-added tax effective 2 April 2001.

Demutualisation of the PSE

- The PSE has assured the SEC of its compliance with the requirement of the Securities Regulations Code to reorganise mutual membership organisations into stock corporations (or demutualisation) by 8 August 2001.

Singapore

Regulatory bodies

- The Securities and Futures Department of the Financial Supervision Group of the Monetary Authority of Singapore (“MAS”) (<http://www.mas.gov.sg/>) is responsible for supervising the investment management sector.

Types of funds

- Unit trusts (open-ended or closed-ended)

Laws, rules, regulations and codes

- Trust Companies Act, Cap. 336
- Trustee Act, Cap. 337
- Listing Manual of the Stock Exchange of Singapore (<http://www.ses.com.sg/>)
- Companies Act, Cap. 50
- Companies Regulations 1987
- MAS Guidelines and Practice Directions
- Securities Industry Act and Regulations
- Banking Act, Cap 19
- Central Provident Fund Regulations and Guidelines

Investment association

- Investment Management Association of Singapore (<http://www.imas.org.sg/>)

Updates of capital adequacy requirements, investment restrictions and foreign funds

No major changes from previous edition

Other developments

Updates of laws, rules, regulations and codes

- In March 2001, the MAS issued a consultation document and a draft version of The Securities and Futures Act (“SFA”) 2001. The proposed SFA consolidates the provisions of the Securities Industry Act and the Futures Trading Act. The corporate fund raising and unit trust provisions will also migrate to the SFA.

- The draft Financial Advisers Act 2001 was issued by the MAS in March 2001. This new legislation will govern financial advisory activities in respect of investment products, and the distribution or marketing of specific functionally similar products, namely life insurance policies and collective investment schemes, including unit trusts.

Market developments

- A new scheme called the Supplementary Retirement Scheme took effect on 1 April 2001. This voluntary scheme was established to encourage working individuals to save for retirement, over and above their Central Provident Fund savings. Contributions made to the scheme are tax deductible in the year following the year of contribution. The savings, including investment returns, will be taxed only upon withdrawal i.e. the accumulated investment returns (with the exception of Singapore dividends) will be tax-free before withdrawal. Individuals can invest in a wide range of financial assets, which include fixed deposits, fund management accounts, unit trusts, bonds, traditional insurance products and other investment-linked insurance plans.

South Korea (Republic of Korea)

Regulatory bodies

- The Financial Supervisory Commission (<http://www.fsc.go.kr/english/main.html>)
- The Financial Supervisory Service (<http://www.fss.or.kr/fss/english/main.html>)

Types of funds

- Unit trusts
- Closed-ended investment trust companies
- Open-ended mutual funds

Laws, rules, regulations and codes

- Securities and Exchange Act, which regulates the offer and sale of securities
- Securities Investment Trust Business Act
- Securities Investment Company Act
- Guidelines for the Domestic Sale of Beneficial Certificates of Foreign Investment Funds

Investment association

- Korea Investment Trust Companies Association (<http://www.kitca.or.kr/english.asp>)

Updated of capital adequacy requirements, investment restrictions and foreign funds

No major changes from previous edition



Other developments

Updates of laws, rules, regulations and codes

No major changes from previous edition

Market developments

- Open-ended mutual funds were introduced in February 2001.

Sri Lanka

Regulatory body

- The Securities and Exchange Commission

Types of funds

- Unit Trusts (open-ended)

Laws, rules, regulations and codes

- Securities and Exchange Commission Act No. 36 as amended in 1991
- Unit Trust Code 1995

Investment associations

- Sri Lanka Association of Securities and Investment Analysts
- The Unit Trust Association

Updates of capital adequacy requirements, investment restrictions and foreign funds

- The requirement for brokers to have a minimum net capital of Sri Lankan Rs15 million by 2001 has been waived and the current limit of Sri Lankan Rs5 million is being maintained.

Other developments

Updates of laws, rules, regulations and codes

No major changes from previous edition

Market developments

- The Colombo Stock Exchange (“CSE”) will introduce Stock Borrowing and Lending (“SBL”) in September 2001. Currently the CSE is in the process of finalising the rules for SBL, and obtaining the necessary regulatory approvals.
- It has been agreed to allow gilt-edged securities to be traded on the CSE.
- The CSE has announced plans to change its ownership structure from a Company limited by Guarantee to a limited company with a share capital. It is also looking at introducing second tier members as ‘trading members’, with a significantly lower entry fee.

Taiwan

Regulatory bodies

- The Securities and Futures Commission (“SFC”) (<http://www.sfc.gov.tw/e-sfc/e-index.htm>) is the primary regulator of the securities market and is under the close control of the Ministry of Finance.

Types of funds

- Mutual funds (open-ended or closed-ended)
- Unit trusts (open-ended or closed-ended)

Laws, rules, regulations and codes

- The Securities Exchange Law is the main source of securities regulations
- The Securities Management Law
 - Rules Governing the Administration of Securities Investment Trust Enterprises
 - Regulations Governing the Management of Securities Investment Trust Funds
- The Statute for Investment by Overseas Chinese
- The Statute for Investment by Foreigners
- Regulations Concerning Investment in Securities by Overseas Chinese and Foreigners
- The Overseas Chinese and Foreigners Investment in Securities and Foreign Currency Remittance Rules
- The Regulations Governing Securities Investment by Overseas Chinese and Foreign Investors and Procedures for Remittance
- Guidelines for Overseas Chinese and Foreigners to Apply for Investment in the Taiwan Securities market
- The Bank Law, Chapter 6 (Investment Trust Company) Regulations

Investment association

- Securities Investment Trust and Advisory Association

Updates of capital adequacy requirements, investment restrictions and foreign funds

- Effective from 1 May 2001, the quota validity for Qualified Foreign Institutional Investors (“QFIIs”) to remit in/out approved investment funds increased from one year to two years, and the recycling investment quota granted to a QFII became a fixed amount quota.
- Effective from 18 May 2001, the qualification requirements for each category of QFII investing in domestic securities became more generic. An investment institution with at least one complete fiscal year and USD 200 million in equity assets self-owned or under management, is allowed to apply for a QFII permit.
- The SFA stipulated on 16 May 2001 that securities brokers may invest in stocks listed on the Over-The-Counter (“OTC”) market with self-owned funds with the following limitations:
 - Securities brokers may invest in securities listed in the centralised market or the OTC market up to 20% of their net worth; investment in securities in the OTC market alone must not exceed 10% of their net worth.
 - The aggregate amount of investment in listed securities in the centralised market or the OTC market and in the open-ended beneficiary certificates must not exceed 30% of their net worth.
 - The aforementioned aggregate amount must not exceed 40% of paid-in capital after being added to the amount of other direct investments.
 - The self-owned capital adequacy ratio must not be lower than 150% after calculating the aforementioned aggregate amount.
 - The investment must not be processed through negotiation and must not be invested in securities firms or managed stocks listed on the OTC.

Other developments

Updates of laws, rules, regulations and codes

- The SFC announced revisions to the "Guidelines for the Offering and Issuance of Securities Overseas" on 9 April 2001. These revisions permit listed companies to issue bonds with warrants overseas and non-listed companies to issue bonds with warrants overseas by using the shares of listed companies as convertible targets.
- The SFC stipulated on 3 May 2001 that securities brokers may act for securities investment trust companies to buy back the offering and issuance of receipts approved.
- To respond to the revision of the Securities & Exchange Law promulgated on 19 July 2000, the "Enforcement Rules of Securities and Exchange Law" have been revised as follows:
 - Increasing the level of opinions of Certified Public Accountants on financial statements having a "Modified Unreserved Opinion".
 - Loosening the standards for public companies in re-compiling their financial statements.
 - Adjusting the scope of material events severely influencing the shareholders' equity and

stock prices which the listed company must disclose and file a report on within two days of occurrence.

- Setting a formula for the capital appropriation ratio based on the source of the capital reserve.
- Defining the scope of “other securities with the nature of equity” in short-swing trading.
- Effective from 27 June 2001, the lowest margin ratio of stock loans has been changed from 120% to 150%.
- The Financial Holding Company Law was passed on 27 June 2001. Under the new law, financial groups with business in two out of the three major finance sectors, banking, insurance and securities, are allowed to set up financial holding companies. The Cathay Life, Fubon, Koo, Shinkong, President and Jih Sun Groups are among the local conglomerates that have publicly shown an interest in forming financial holding companies. With a properly designed financial holding company model those conglomerates should benefit from cross-marketing and information and manpower sharing.

Market development

No major changes from previous edition

Thailand

Regulatory bodies

- The Securities and Exchange Commission (“SEC”) (<http://secwww.sec.or.th/>) is responsible for administering and controlling the securities business.
- The Fund Management Supervision Division of the SEC is responsible for formulating measures to supervise companies holding mutual fund management licences, private fund management licences and investment advisory services licences.
- The Bank of Thailand (<http://www.bot.or.th>) (if the fund was established before the Securities and Exchange Commission Act 1992 (“the SEC Act”) was introduced).

Types of funds

- Open-ended funds
- Closed-ended funds

Laws, rules, regulations and codes

- The SEC Act
- The Civil and Commercial Code is the main source of company law
- The Revenue Code

Investment associations

- Association of Investment Management Companies
- Provident Funds Association

Updates of capital adequacy requirements, investment restrictions and foreign funds

No major changes from previous edition

Other developments

Updates of laws, rules, regulations and codes

- The SEC, meeting on 9 March 2001, agreed to allow mutual fund management companies and newly established limited or public limited companies set up with the purpose of providing private fund management services to conduct the following businesses:
 - being computer sales agents or recommending other vendors or Internet service providers to mutual fund unit holders or private fund/provident fund clients. However, such services

must be related only to mutual fund management or private fund/ provident fund management business.

- being sales representatives for other mutual fund management companies.
- On 31 March 2001 Prime Minister Thaksin Shinawatra announced the results of a meeting to gather ideas on how to develop the Thai capital market. The most important measures are:
 - Equity market development. The supply side will be emphasised by measures to:
 - encourage the listing of state enterprises on the Stock Exchange of Thailand (“SET”). The Government will fully support the privatisation of state enterprises.
 - provide incentives to list and retain a listing status by:
 - providing special tax incentives for newly listed companies;
 - adjusting disclosure rules and accounting standards to alleviate the burden as well as to justify the competitive advantage of the companies if some of the disclosed information affects their operations and competitive strategies;
 - minimising the par value of share capital; and
 - targeting firms promoted by the Board of Investment and those receiving privileges from the government.
 - develop capital resources for small and medium-sized enterprises as well as the Market for Alternative Investment (“MAI”). In an attempt to encourage regular listings, the MAI will conduct proactive marketing strategies and offer listing incentives, such as special tax incentives.
 - Debt market development. The measures are:
 - promulgation of the Public Debt Management Act in order to facilitate a regular and predictable supply of government securities; and
 - amendment of the Securitisation Act and removal of tax impediments associated with the securitisation process. This will allow financial institutions to unload their loan portfolio from their balance sheets.

In addition, the government has announced its commitment to the amendment and promulgation of legislation pertaining to the development of the Thai capital market including the Securities and Exchange Act, the Public Company Act, the Derivatives Market Act, the E-Commerce Act, the Class Action Act, and the Trust Act.

- On 28 May 2001, the SET announced measures to revive and develop the Thai capital market by relaxing corporate tax and disclosure criteria. The government cabinet meeting held on 22 May 2001 approved the following tax incentives:
 - Corporate tax incentives
 - Corporate taxes for listed companies will be reduced from 30% to 25% for profits that do not exceed Baht 300 million for five accounting periods.

- Corporate taxes for companies about to list on the SET will be reduced from 30% to 25% for five accounting periods.
- Corporate taxes for companies about to list on the MAI will be reduced from 30% to 20% for five accounting periods.

These reductions apply to companies intending to list on the SET and MAI within three years from the accounting period beginning on 1 January 2002.

- Stock dividend incentives

The Revenue department has specified how to calculate the price of stock dividends for tax purposes, being the retained earnings which are allocated to stock dividends divided by the number of stock dividends. This is to provide the company with an alternative method of providing returns to its shareholders, i.e. by issuing stock dividends. This creates liquidity for listed companies, and shareholders will still receive a return on their investments. The SET has yet to announce the date this measure will become effective.

- Revision of regulations on the disclosure of information to reduce company disclosure tasks

The SET Board of Governors has revised the regulations on the disclosure of information concerning the acquisition and disposition of assets and connected transactions by eliminating the regulation requiring listed companies to publish all transactions in Thai and English language newspapers in order to reduce information disclosure expenses. This revised regulation became effective on 1 June 2001.

- In June 2001, the SET Board of Governors approved amendments to the SET and MAI listing criteria to develop the Thai capital market. The main amendments are as follows:
 - State enterprises may become public companies and list on the SET, but do not yet need to apply to the SFC to initiate a share offering. However the company must obtain approval from the SEC, and complete the public offering within one year, before the shares are traded on the SET.
 - The MAI listing criteria on the paid-up capital of companies has been changed to a maximum of Baht 200 million.
 - A company raising capital on the MAI is not required to have a financial advisor for three years.

Market developments

- The SET changed the basis for calculating the SET index on 1 July 2001. The new index calculation will exclude any stocks that have been suspended from trading for over one year because the stock price before such a trading suspension does not reflect the stock's current fundamental factors.
- At the beginning of this year, the SET announced a moratorium on levying the fee for capital increases for listed companies. On 28 June 2001, the SET reduced its annual fee by 50% and its application fee for ordinary or preferred shares by 67% from Baht 150,000 to Baht 50,000. These incentives became effective from 1 July 2001 onwards.

- The SET Board of Governors approved a budget of Baht 16 million to establish a back office service bureau as a special agency under SET management to provide back office services to securities companies. It is expected that the service will begin to be provided around October 2001.

Vietnam

Regulatory bodies

The State Securities Commission is the government body responsible for authorising securities investment funds in Vietnam.

Types of funds

- Open-ended fund
- Closed-ended fund

Laws, rules, regulations and codes

- Decision 128/1998/QD-UBCK5 on the organisation and operation of the Vietnam Stock Exchange
- Decision 139/1999/QD-TTg on the percentage of foreign participation in the Vietnam Stock Exchange
- Circular 01/1999/TT-UBCK1 on guidelines for foreign participation
- Decision 04/1999/QD-UBCK1 on regulations for membership, listing, information disclosure and stock transactions
- Decision 05/1999/QD-UBCK1 on regulations for securities custody, clearance and registration
- Circular 01/2000/TT-UBCK1 on temporary guideline for customer service charges by securities companies
- Decision 26/2000/QD-UBCK2 on the selection of independent auditors for securities companies

Investment association

No investment association in Vietnam.

Updates of capital adequacy requirements, investment restrictions and foreign funds

No major changes from previous edition

Other developments

Updates of laws, rules, regulations and codes

No major changes from previous edition

Market developments

- A stock trading centre in Ho Chi Minh City was opened in 20 July 2000. Currently, six companies are listed.
- Since 1998, more than 620 state owned enterprises have been “equitised”, with just over 70% of their average equity moving into private hands. Most of these firms are very small, and there are still over 5,500 non-equitised state-owned firms.
- Proposals are in the pipe line lift the foreign shareholding cap (30%) in “equitised” firms.