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Prakas on the Issuance of Fund Units of Collective Investment Scheme

Introduction

On 20 July 2023, the Non-Banking Financial Services Authority issued Prakas No. 035 on the Issuance of Fund Units of Collective Investment Scheme ("**Prakas**"). This Prakas is a long-awaited legal instrument under the purview of the Securities and Exchange Regulator of Cambodia ("**SERC**") to basically kick-off the collective investment scheme ("**CIS**") market in Cambodia after the issuance of Prakas No. 003/18 on the Licensing and Management of Collective Investment Scheme Business on 29 May 2018, which governs the licensing of relevant CIS market players and operators.

This Prakas sets out the conditions and requirements as well as the procedure with respect to the issuance of fund units of CIS, and the operation of such funds thereafter in order to ensure accountability and transparency under the applicable laws and regulations.

1. Procedure for the Issuance of Fund Units of CIS

In order to issue fund units of CIS including private funds, a fund management company ("**FMC**") shall establish the fund, apply for the issuance and offering of fund units, and register such fund.

An FMC that wishes to establish a CIS fund shall request for approval from SERC, provide relevant supporting documents as listed under Clause 5 of the Prakas, and comply with the following conditions:

- (a) Has a disclosure document;
- (b) Has a collective investment contract;
- (c) Has a collective investment policy which specifies the purpose of investment and the expected return on investment for fund unit holders;
- (d) Comprise the required number of fund unit holders according to each type of established CIS funds; and
- (e) Comply with other conditions as determined by SERC.

Upon obtaining approval from SERC on the establishment of CIS funds, the FMC, with the assistance of a distribution company, shall issue fund units of CIS within 60 days or within the period as permitted by SERC. Within seven working days or a reasonable period as permitted by the SERC after the completion of the issuance of fund units of CIS, the FMC shall request for the registration of its funds with SERC and provide the relevant supporting documents as required under Clause 9 of the Prakas.

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Following the registration with SERC, the FMC shall register ownership over the fund units for fund unit holders within no more than five working days.

2. The Operation of CIS Funds

Any investment of CIS funds by an FMC first requires the obtaining of prior approval from SERC.

2.1 Domestic Markets

An FMC may use CIS funds to invest in securities, financial instruments, financial markets and/or investment instruments in the Kingdom of Cambodia including:

- (a) Securities including government securities and derivative instruments;
- (b) Deposits and financial instruments that can be traded in the money market;
- (c) Other investment instruments as permitted by SERC; and
- (d) Other financial instruments as permitted by SERC.

2.2 Foreign Markets

An FMC may invest CIS funds in a foreign financial market provided that such market meets the following requirements:

- (a) Constitutes a permitted financial market;
- (b) Serves public interests;
- (c) Has sufficient market information; and
- (d) Allows for the transfer of capital or funds from such permitted financial market.

2.3 Obligations of FMC

Updates of Ownership over Fund Units

An FMC, with the assistance of a distribution company, shall update the ownership over fund units upon receiving written notifications in relation to the transfer, and amendment of name or address of fund unit holders.

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Liquidity Risk Management

An FMC shall (i) effectively adopt, implement, and maintain a liquidity risk management policy and distribute such policy to fund unit holders; (ii) determine an appropriate liquidity ratio in proportion to the redemption obligations and other obligations of funds; and (iii) adopt other measures to ensure the liquidity of the funds.

Reporting Obligations

An FMC, with the assistance of a distribution company, shall notify and report to fund unit holders and SERC in the event of:

- (a) Amendments to the collective investment contract;
- (b) Changes of FMC or trustee or custodian agent in securities sector;
- (c) Changes in risk factors of the funds;
- (d) Amendments to the dividend policy of the funds;
- (e) Other material changes which affect investment decisions or rights of fund unit holders;
- (f) Amendments to the investment policy such as the purpose or strategy of fund investments whereby prior approval from SERC is required; and
- (g) Changes, or determinations of new fees or expenses, or increase in fees or expenses in relation to the funds whereby prior approval from SERC is required.

In addition to the above, the FMC shall provide periodic reports to SERC including monthly reports, quarterly reports, and annual reports in accordance with the prescribed form as determined by SERC. Such reports shall contain baseline content such as information on the funds, report on the operating result of the funds, report of the FMC, report of trustee, audited quarterly financial report of the funds, audited annual financial report of the funds, and other information depending on each type of CIS funds.

3. Termination of Funds

Funds can be terminated in the following cases:

- (a) Decision of fund unit holders to terminate the funds;
- (b) Expiry of the term as specified in the collective investment contract;
- (c) Decision of competent courts; and
- (d) Other events as specified in the collective investment contract or other reasonable grounds as determined by SERC.

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4. Additional Requirements for Public Issuance of Fund Units of CIS

The Prakas also further specifies in detail the additional requirements particularly for the public issuance of fund units of CIS: (i) to annually update the disclosure documents; (ii) the additional issuance and redemption of fund units for open-ended funds; (iii) the valuation obligation; and (iv) the advertisement and roadshow.

If you have any queries on the above, please feel free to contact our team members below who will be happy to assist.

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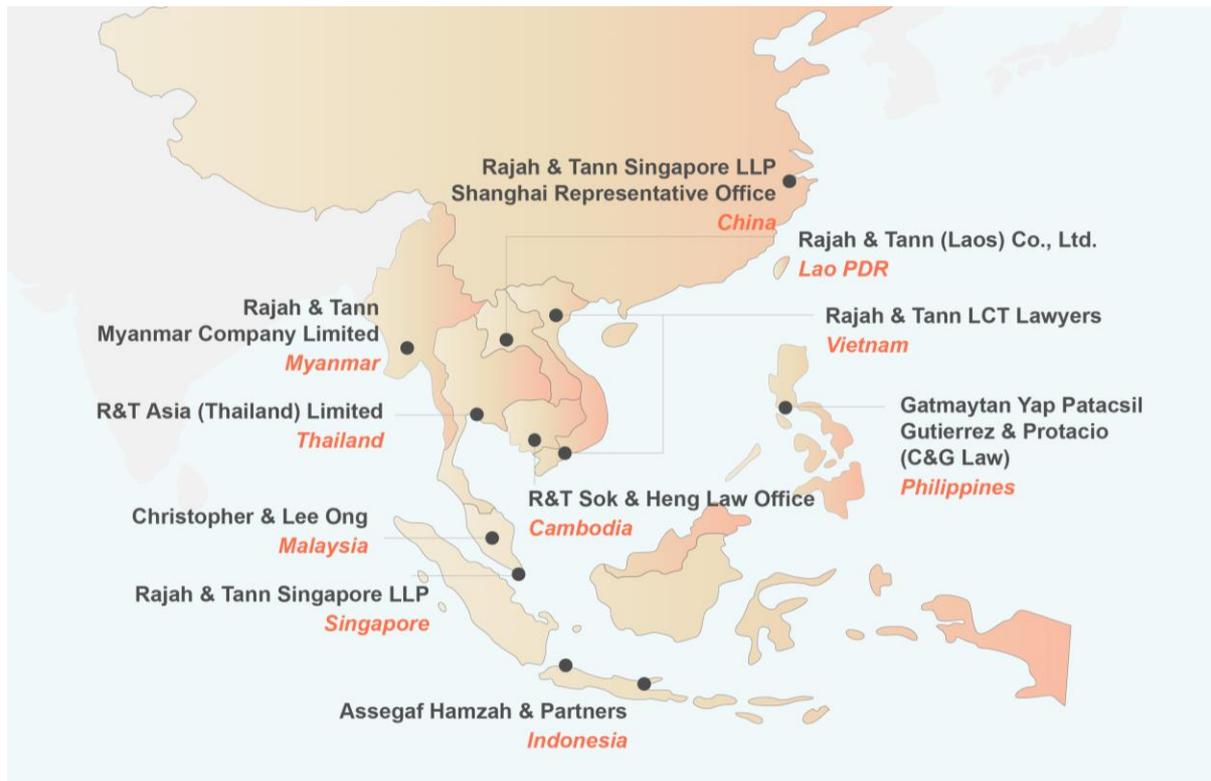
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