



Emerging Issues & Key Reforms in the Fund Management Industry

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La Palm Royal Beach Hotel

Time: 9am

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Executive Summary



Significant growth over the years

- AUM has grown significantly over the past 7 years from GHS 981m in 2010 to GHS 34bn at March 2018
- Similarly, the number of Fund Managers (FMs) have increased from 51 to 148 within the same period

Business Models

- FMs have gone outside their mandate by promising fixed interest rates*
- FMs have also undertaken large exposures in related parties
- This has led to numerous complaints from investors due to inability of FMs to redeem investments upon maturity

Stronger oversight, monitoring, development and supervision

- A new Act, the Securities Industry Act, 2016 (Act 929) has been passed to strengthen the regulatory environment
- As a result, new guidelines are being implemented to protect investors and raise the integrity bar

Permissible Activities

- Among other restrictions, there is now a cap on investments with
- a single bank, & a single specialized deposit taking institution
 - a single unlisted issuer, unlisted equities and unlisted bonds
 - related parties (RPs) and a detailed definition on RPs

*Not a permissible activity

Overview of the Fund Management sector

Funds Under Management

FUM	End December, 2017 GHS Billion	End March, 2018 GHS Billion	% Change %
Pension	7.21	8.12	12.66%
CIS	2.17	2.61	20.64%
Others	21.69	23.68	9.19%
Total	31.06	34.42	10.80%

Trend of Selected Market Operators for 7-year period



	2010	2011	2012	2013	2014	2015	2016	2017	Q1 2018	% Growth between 2010 & 2017
Fund Managers	51	58	68	87	103	129	147	157	148	208
CIS (Mutual Funds & Unit Trusts)	24	26	32	35	42	46	53	53	53	121
Listed Equities	35	34	34	34	35	35	36	36	36	3
Broker -Dealers	22	23	22	22	22	23	23	23	23	5
Custodians	9	12	17	18	18	18	17	17	18	89
Primary Dealers	0	0	14	15	15	16	12	17	17	21
Trustees	3	3	3	3	4	5	6	6	6	100
Registrars	4	4	4	3	4	4	4	4	4	0
Issuing House	0	0	1	1	1	1	1	2	2	100

**Inability of certain
Fund Managers to
honor redemption
requests on Fixed
Deposits issued**

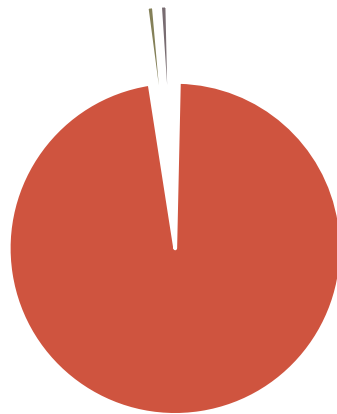
**Increasing incidence of
Related Party
Investments with
limited accountability
and performance issues**

Increasing Complaints

	Complaints Received (Cumulative)	Complaints Resolved (Cumulative)	Outstanding (Cumulative)
End Sept 2017	105	23	82
End Dec 2017	121	26	95
End Mar 2018	255	41	214

ISSUES REPORTED IN COMPLAINTS (April 2018)

Non
payment
of
redempti
on
request
97%



97% of complaints related to non-payment of fixed-rate & term contracts. Value of complaints was GHS 243m as at April 2018

These complaints represent 3.7% of affected firms' AUM (16% when two outliers are removed from data set). These managers are likely to face difficulties honoring upcoming maturities.

Related Party & Concentrated Investments

Category of Related Party & Concentrated Investments	No of Firms Involved	Placement
Related party investments	7	>65% of their FUM
Single Sector Exposure	5	>66% of their FUM
Funds placed with Fund Managers	9	>14% of total FUM
Individuals	9	>0.07 of total FUM
Microfinance, Savings and loans	11	>50% of their FUM
SMEs and others	4	>38% of their FUM

Proposed Reforms and Draft Guidelines for Fund Managers

Asset classes for investment of client funds

Mandate of Fund Managers

- Proprietary funds
- Discretionary and
- Non-discretionary
- Collective investment schemes

Assets Classes for investments

- Capital market instruments
- Money market instruments
- Alternative investments

Funds can only be placed with Institutions licensed under...

- Banks and Specialised Deposit Taking Institutions Act, 2016 (Act 930)
- Securities Industry Act, 2016 (Act 929)
- Insurance Act, 2016 (Act 724)
- Non-Bank Financial Institutions Act, 2008 (Act 774)

A Fund Manager, prior to investing in a Commercial Paper (CP) shall refer to Guidelines on CP issued by the Commission to ensure compliance

Limitations on Investment of Client Funds

Investment with Related Parties

- $\leq 15\%$ of AUM with related parties as follows:
 - $\leq 10\%$ of AUM where related party is a bank
 - $\leq 5\%$ of AUM in all other related parties

Banks, Specialised Deposit-Taking Institutions (SDTIs), Non-Bank Financial Institutions Act(NBFI's) & Others

- $\leq 10\%$ of AUM in a single bank as fixed deposit
- $\leq 5\%$ of AUM in a single SDTI as fixed deposit
- $\leq 20\%$ of AUM in unlisted equities and bonds
- $\leq 5\%$ of AUM in a single unlisted issuer

Additional Restrictions

- No Investment is allowed in Microfinance Institution & Rural and Community Banks unless...
... its fully secured by Gov't T'bills or FD with a Bank or insurance cover by licensed insurer

An FM shall not invest any of its AUM with another FM except where the investment is in a CIS or listed securities of the FM

Approval of related party transactions

Board Subcommittee
to review for board
approval

- Related party investments (RPI) shall be reviewed by a board committee (BC) and recommended to the board of the fund manager for approval prior to the investment being made.

Composition of
Board
Subcommittee

- combination of independent non-executive directors and executive directors.
- One independent non-executive director shall be appointed as Chairman of the committee

Adequate
information,
resources and
expertise

- The BC shall ensure that they have access to, enough knowledge or expertise to assess the proposed RPI
- The BC shall obtain appropriate professional and expert advice where necessary from a qualified person.

A director of an FM who has an interest in a related party investment being considered for approval shall not: (a) be present while the matter is being considered at the meeting and (b) vote on the matter

No more Fixed Deposit issuance by FMs

Fund Managers Should Not Issue Fixed Deposits

- Section 6(1) of The Banks and specialized Deposit-Taking Institutions Act, 2016 states that ...
...A person shall not accept a deposit from the general public or carry deposit-taking business in or from within the country without a license issued in accordance with the Act.
- Thus, FMs are not allowed to do fixed deposit as indicated.
- FDs funds are to be refunded on maturity or migrated.

Baseline Data due by
June 30

Firms with FDs have
up to December 31st
to unwind

SEC conducts
inspections and
undertakes
enforcement in
event of breaches

Mandatory & Reported Client Segmentation



Fund Manager

Retail Clients

Regular Retail (< GHS 100K)
CIS only

High Net Worth Retail
(> GHS 100k)
CIS and Separate Accounts

Clear investment mandate

Institutional
Clients

Corporates, Pension
Trustees, Endowments,
Investment clubs that have
clear investment
mandates/membership
rules

Increased Focus on Governance of Collective Investment Schemes



Staff Quality (CPDs)

Liquidity management

Risk management

Disclosure of
information (investment
universe, investment
strategy)

Communication with
clients (prospecting and
maintaining)

Asset allocation

Investment Committee
meetings

Expense ratio
management

Related party
investments

Complaints resolution

Shareholder/Unitholder
Meetings

Accounts (Audited)

Innovations in Collective Investment Schemes



Umbrella
Funds

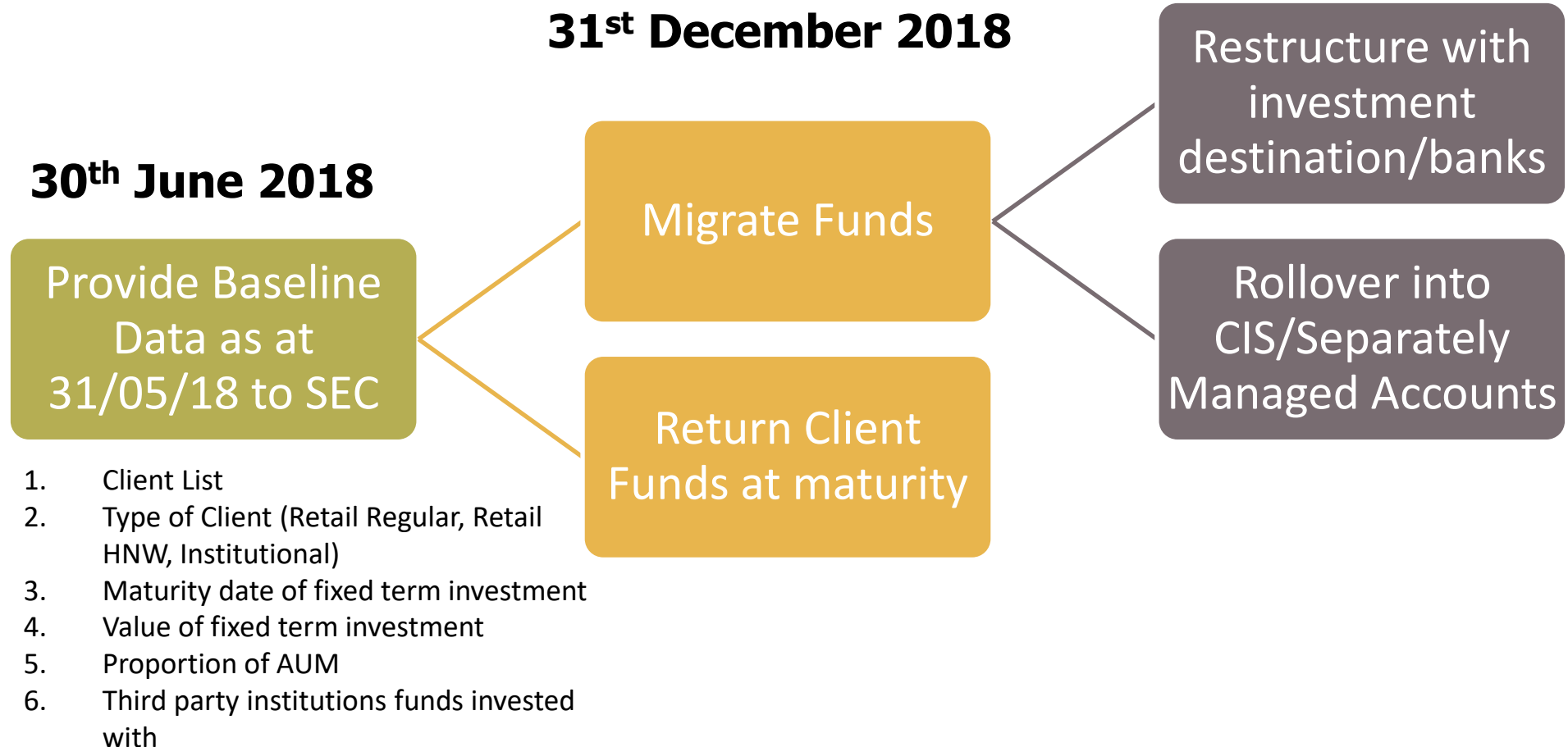
Fund of Funds

Feeder Funds

Fintech &
Payment
solutions

Next Steps

- Six-month window for compliance



Conclusions

- We expect strong cooperation from you as we implement these reforms
- We are creating investor education materials that inform that of what a fund manager is allowed to do and what they are not allowed to do.
- Our education drive will be nationwide, and we expect industry players to also support and carry our educational message in order to strengthen industry standards.
- We will also be enforcing the requirements of our governing law, our guidelines and best practices as prescribed by industry standards and operating manuals.