



BOARD DECISION NO. (37) OF 2012
CONCERNING THE REGULATIONS AS TO MUTUAL FUNDS

The Chairman of the Board of the Securities and Commodities Authority,

Having perused the Federal Law No. (10) of 1980 concerning the Central Bank, Monetary System and Regulation of Banking Profession and amendments thereof;

The Federal Law No. (8) of 1984 concerning the Commercial Companies Law and amendments thereof;

The Federal Law No. (6) of 1985 concerning Islamic Banks, Financial Institutions and Investment Companies;

The Federal Law No. (4) of 2000 concerning the Emirates Securities and Commodities Authority and Market and amendments thereof;

The Federal Law by Decree No. (18) of 2009 concerning the Formation of the UAE Cabinet and amendments thereof;

The Resolution of the Cabinet No. (13) of 2000 on the Functioning System of the Securities and Commodities Authority and amendments thereof;

The Resolution of the Cabinet No. (108/7F/5) of 2010 on the Reformation of the Board of Directors of the Securities and Commodities Authority;

SCA Board Decision No (1/r) of 2000 concerning the Regulations as to Brokers and amendments thereof;

SCA Board Decision No. (2/r) of 2000 concerning the Regulations as to Membership of the Market and amendments thereof;

SCA Board Decision No (3) of 2000 concerning the Regulations as to Disclosure and Transparency and amendments thereof;

SCA Board Decision No (2) of 2001 concerning the Regulations as to Trading, Clearing, Settlement, Transfer of Ownership and Custody of Securities and amendments thereof;



SCA Board Decision No. (29/r) of 2009 concerning the Regulation of Securities Safe Custody Activities; and

Based on the approval of the Board of Directors at its Tenth Meeting of the Fourth Session held on 22/2/2012; and

After coordination with the Central Bank of the United Arab Emirates and as required by the public interest,

Have decided:

Definitions

Article (1)

The following words and phrases shall have the meanings assigned thereto below, unless the context otherwise requires:

UAE / State	: United Arab Emirates.
Central Bank	: Central Bank of the United Arab Emirates.
Law	: The Federal Law No. (4) of 2000 concerning the Emirates Securities and Commodities Authority & Market.
SCA	: The Securities and Commodities Authority in the State.
Board	: The Board of Directors of SCA.
Market	: The Securities and Commodities Market licensed in the UAE by SCA.
External Markets	: The securities markets in the free zones in the UAE or those regulated or licensed abroad and subject to the oversight and regulation of a regulator similar to SCA.
Investors	: Natural or corporate persons who invest their funds in any mutual funds through purchasing unit or units in such funds.
Mutual Fund	: Or investment fund is a financial vehicle practicing the activity of investors' money formation for the purpose of investment against the issue of investment units of equal value and rights.
Islamic Mutual Fund	: A mutual fund whose Offer Document provides for the fund's full compliance with the Islamic <i>Shariah</i> provisions and principles in all its activities and business.



- Local Fund** : An investment fund established in the UAE, excluding the free zones, and licensed by SCA.
- Foreign Fund** : A mutual fund established outside the UAE under the laws and regulations in force in a foreign countries.
- Open-End Mutual Fund** : A fund with changing capital that increases by the new units issued and decreases by the redeemed existing units. Subject to the approval of SCA, units of this fund can be traded in the market after listing it therein.
- Closed-End Mutual Fund** : A fund with fixed capital. The units of this fund are only redeemable upon its expiration, unless its Offer Document provides otherwise and its investment policy is agreed otherwise. The units can be traded in the market after listing the fund according to the controls included in the approval of SCA and those contained in its Offer Document.
- Exchange Traded Fund** : An open-ended mutual fund established for the purpose of investing most of its monies in an investment combination consistent with the combination of a price index in the markets or combination of an investment portfolio determined by its investment policy, in addition to allowing the trading of the fund units in one financial market or more.
- Net Asset Value** : The market value of the assets of the fund net of the total liabilities and all charges due thereon.
- Fund Unit** : A security representing the share of its owners in the net value of the assets of the fund.
- Unit Redemption Value** : Net assets value divided by the number of the fund units.
- Offer Document** : The prospectus of the mutual fund offered to the public in public offering or the Offer Memorandum of the mutual fund offered to pre-determined persons.
- Investment Manager** : A corporate person licensed to practice the activity of investment management.
- Management service company** : A corporate person licensed to practice the management services for mutual funds.
- Independent Board Member** : The member who was not himself/herself, his/her spouse or any first degree relative a member of the executive management in



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the company that established the fund or in all service providers to the fund within the last two years and he is not associated with any of them directly or indirectly.

- Safe Custodian** : A corporate person licensed by SCA to practice the safe custody activity.
- Related Parties** : The Company that established the mutual fund, its Board of Directors and any entity contracted to provide services to the fund.
- Associated Group** : A group of companies with a common ownership relationship that makes them fall under the concept of holding companies, subsidiaries or sister companies.
- Fund Promotion** : Offer, market, distribute or advertise the fund and its units.
- Shariah Supervisory Committee** : The *Fatwa* and *Shariah* Supervisory Committee of the Islamic mutual fund.

Applicability

Article (2)

1. The provisions of these Regulations shall apply to all matters pertinent to the local mutual funds and the promotion of foreign funds within the State.
2. Mutual funds established in a free zone within the UAE shall be treated as foreign funds, unless otherwise stipulated in the provisions herein.
3. The provisions of the these Regulations shall not apply to accumulation of funds for purposes of investment in a joint bank account; concluding group insurance contracts; participation in social security, employee motivation programs, or fund accumulation for the purposes of forming any type of companies mentioned in the Commercial Companies Law. They shall not also apply to structured/compound products or mutual funds linked with insurance or security contracts or investment portfolios managed by their owners or SCA-licensed companies, or private investment portfolios managed by investment banks and companies.



Establishment and Promotion of Mutual Funds

Article (3)

Subject to the provisions pertinent to the functions of the Central Bank, no local mutual fund may be established and no foreign mutual fund may be promoted within the UAE prior to obtaining the license for establishment or approval of the promotion from SCA.

CHAPTER I

LOCAL FUNDS

Fund Establishment

Article (4)

The following conditions must be satisfied by companies wishing to establish a local mutual fund:

1. The company must be a shareholding company incorporated in accordance with the provisions of the Commercial Companies Law or a branch of foreign company licensed by the concerned authorities.
2. The capital of the company or the foreign branch must be at least ten (10) million Dirhams. Banks, financial investment companies, branches of foreign banks and any entity licensed by the Central Bank shall be exempted from the capital condition provided that such entities submit an unconditional bank guaranty in favour of SCA in the amount of ten (10) million Dirhams issued by a bank operating in the State. SCA may cash such guaranty or any part thereof at any time to cover any financial liabilities that SCA may decide to perform towards any investors.
3. The approved activity of the company under its Articles of Association must be to set up mutual funds. Banks, financial investment companies, branches of foreign banks and any entity licensed by the Central Bank shall be exempted. Such company may practice activities related to mutual funds according to the rules prescribed by SCA in this regard.
4. The company must invest in each local mutual fund it establishes by at least (3%) of the fund's capital. The company's investment together with its subsidiaries may not exceed (49%) of the capital of the fund established by it unless the fund is close-ended and does not offer or allow the trading of its units by the public.



5. The company must have the Capital adequacy required to practice its activity and enable it to perform its liabilities according to the criteria prescribed by SCA in this regard.
6. Any other requirements, conditions or controls set by SCA must be observed.

License Application For a Local Fund

Article (5)

1. Companies that satisfy the conditions set out in Article (4) above and wishing to establish a local mutual fund must apply to SCA for the fund license using the form prepared for this purpose enclosing the documents and statements stated in the form in addition to other data or documents that SCA may deem necessary.
2. SCA may grant the applicant initial approval for the fund establishment procedures and licensing procedures in accordance with the rules prescribed by SCA in this regard.
3. SCA shall issue its decision on the submitted application, either by approval or rejection, within a period of no more than (30) business days from the date all data and documents enclosed with the application are completed. SCA may restrict the approval decision by any controls or conditions it deems necessary for the fund to practice its activity.
4. SCA shall notify the Central Bank of its approval to license the mutual fund in order to perform its tasks related to prudential supervision.

Cancellation of the License

Article (6)

SCA may cancel the license granted to a local fund in the following cases:

1. The fund fails to practice its activity within (3) months from the date of being notified of SCA decision on its licensing. Such period may be extended for further similar periods, if there are reasons justifying the extension.
2. It is evident to SCA at any time that the data or documents submitted with the application were incorrect.



Fund Eligibility

Article (7)

The assets of the fund shall be considered its own property and it shall enjoy the required eligibility to dispose thereof within limits of the purpose it is licensed for. The assets of fund shall guarantee the rights of the unit owners; and they may not be pledged or liened to perform any dues on the body that established it.

Fund Correspondences

Article (8)

The Company that establishes a local mutual fund must determine a clear address for the fund in the UAE to be stated in the Offer Document, to which all correspondences of the fund and those related to its board of directors shall be served, and where all documents that facilitate the work of SCA as a regulatory and supervisory body must be kept.

Fund Offer Document

Article (9)

The local fund's Offer Document must be prepared in Arabic language in accordance with the form prepared by SCA for this purpose. The Offer Document may be prepared in English provided that it is mentioned therein that the Arabic version shall prevail in the event of any difference.

Data of the Offer Document

Article (10)

The local fund's Offer Document shall contain the following basic data:

- Name and term of the fund and the objective of its establishment.
- The capital for close-ended mutual funds and minimum capital for open-ended mutual funds.
- The investment policy of the fund.
- The fund's compliance with the provisions and principles of Islamic Shariah if the fund is an Islamic mutual fund.



- Bases, criteria and method of assets and units evaluation.
- Method of subscription in the units.
- How units are issued and the cases in which units may be redeemed.
- The cases in which units the redemption process may be temporarily suspended.
- Names of the board of directors of the fund and method of their appointment, removal, dismissal and determining their remunerations.
- Names of members of the *Shariah* Supervisory Committee of the fund and all provisions pertinent thereto in case the fund is an Islamic mutual fund, according to the controls issued by SCA in the provisions of the *Shariah* Supervisory Committees.
- Name of the investment manager, the management service company, the safe custodian, the auditors, the real estate evaluators (in case the fund is a real estate investment trust) and any of the related parties contracted with and their fees and method of calculation.
- Sum up all fees incurred by the fund in one item.
- Disclosure rules and manner of their application.
- Limits of the borrowing right or obtaining finance and the fees increase.
- The various decision making authorities and their limits.
- The policy of distributing the fund's profits.
- Cases of the fund liquidation and method of liquidation.
- Cases requiring inviting the units' owners for a general assembly meeting and how the call for the meeting should be addressed.
- The limits and mechanisms of amendment to the Offer Document, and means and timing of notifying the investors thereof.

Amendment of Offer Document

Article (11)

1. The approval of the general assembly of the fund unit owners must be obtained before any amendment to the Offer Document, unless provided otherwise in



- relation with certain technical matters not affecting the rights of unit owners. In all cases, the amendment shall be only effective after obtaining the approval of SCA.
2. Without prejudice to the provisions of these Regulations and the content of the Offer Document, the provisions of the Commercial Companies Law shall apply to the general assembly meetings of the fund unit owners in the same manner as they apply to the ordinary general assembly meetings of public shareholding companies in terms of the call for the meeting, the quorum and the method of voting.

Investment Policy of the Local Fund

Article (12)

1. The investment policy of the fund must at least include the following:
 - a. Identify the investment instruments available to the fund where its assets are proposed to be invested and the limits of such investments.
 - b. Define the investment risks related to each investment instrument and its anticipated future effect on achieving the investment objectives of the fund.
 - c. How the investment instruments will be handled to cope with the risks of the fund.
 - d. The restrictions associated with the investment of the fund assets in other mutual funds.
 - e. The policy, limits and controls of the fund borrowing or obtaining finance as commensurate with its investment nature.
 - f. The mechanism for the amendment of the investment policy.
 - g. The *Shariah* Supervisory Committee's approval of the investment policy of the Islamic mutual fund.
2. The investment policy of the local mutual fund must be commensurate with its nature, type, term, objective, investment instruments and any other elements related to such policy. The following must also be observed:
 - a. The monies and assets of the fund must be registered or kept in the name of the fund, unless otherwise is required and after obtaining the approval of SCA.



- b. No investment must be placed in any legal entity where the liability of its shareholders is undefined.
- c. The monies of the fund may not be invested in other than the investment instruments stated in the investment policy or beyond the outlined investment limits unless in case such policy is amended in accordance with the rules contained in the Offer Document.
- d. No amendment to the investment policy of the fund may be effective before obtaining the approval of SCA.
- e. The unit owners must be informed of any amendment to the investment policy of the fund at least (20) business days before such amendment comes into force according to the notification means set out in the Offer Document.
- f. Any other controls determined by SCA.

Investment in Securities

Article (13)

Unless the nature and investment policy of the fund otherwise permits and after obtaining the approval of SCA, local mutual funds whose investment policy aims at investing in tradable securities must comply with the following:

1. The percentage of the fund's investment in the total securities issued by one company may not exceed (15%) of the fund's total assets. For securities issued by one associated group, the percentage may not exceed (20%) of the fund's total assets. In all cases, investment in any type (shares or debentures) alone may not exceed (10%) of the fund's total assets and may not exceed (15%) of the securities issued by the company where the investments are placed.
2. The percentage of the fund's investment in other similar mutual funds may not exceed (20%) of the fund's total assets, subject to a maximum of (10%) in any one fund and not more than (15%) of the total assets of such fund, provided that none of such funds is managed by the same investment manager of the fund.
3. Subject to the provisions contained in Clauses (1) and (2) herein, the percentage of the fund's investments in external markets may not exceed (20%) of the fund's total assets. In case it is desired to increase investments in external markets beyond this percentage, an application must be submitted to SCA to obtain its prior approval thereof. The fund that obtained such approval of SCA must submit monthly reports about the volume and details of its external investments and the financial position of the fund.



Prohibition of Receiving Monies

Article (14)

Without prejudice to any other law provision, it is prohibited to raise or receive any funds from persons in breach of these Regulations or other laws and regulations applicable in the State.

The establishment of a local mutual fund or the invitation to subscribe to its units may not be announced or promoted in any form except after SCA approves its Offer Document and issues its final approval to the fund establishment.

Subscription to the Fund Units

Article (15)

1. Subscription to the fund units shall be made pursuant to the Offer Document. The subscription by investors to the fund units shall be deemed as the approval of the Offer Document and the formation the general assembly of the unit owners and joining it. The shares offered for investment in the fund shall be in cash and may not be in kind except for close-ended mutual funds. They may only be offered for public subscription when there are reasons requiring so and after obtaining the approval of SCA or the Exchange Traded Fund according to its controls.
2. If the minimum of the fund is not covered within the period determined in the Offer Document, the fund founder, after obtaining the approval of SCA, may either extend the subscription period for a similar period of (3) months maximum for both periods, or amend the amount of monies to be invested in consistency with the covered shares, provided that the value of such shares is not less than (50%) of the monies to be invested upon offering units; or the founder may revoke the fund establishment if the limit referred to is not reached. In this case, the amounts of subscriptions must be refunded with interests or realized profits to the subscribers. However, if the subscription applications exceed the number of units offered, the fund founder may increase the value of monies to be invested, if in accord with the investment nature of the fund, and after the approval of the board of directors of the fund and SCA is obtained for such increase intended to accommodate the excess subscription applications. If the monies to be invested are not increased, the units offered to the subscribers shall be allocated on pro rata basis with fractions rounded in favour of small subscribers.
3. The date for refunding the amounts to the subscribers must not be later than (10) business days following the date of the closure of subscription. The amounts



- refunded to the subscribers must include the accrued interests or realized profits in case of the Islamic mutual fund calculated for such monies since the date of deposit for subscription until the day preceding the date of disbursement to subscribers on the basis of the prevailing interest rate or the expected profit at the time, which should be agreed with the entity that receives the subscriptions as stated in the Offer Document.
4. SCA must be informed of the results of subscriptions in the fund on timely basis. Such results upon the closure of subscription may not be announced before referring to SCA and obtaining its approval.

Commencement of the Fund's Activity

Article (16)

The fund may only commence the practice of its activity after the decision of SCA to license the fund to practice the activity is issued and completion of the subscription process is ensured.

Issuance of the Fund Units

Article (17)

1. The fund shall, within (15) days from the date of subscription closure, issue to the subscribers nominal units of equal nominal value not less than (one Dirham) and not more than (AED 500,000) five hundred thousand Dirhams or the equivalent in other currencies.
2. The fund units shall confer upon its owners equal rights. Each unit owner shall share in the profits and losses resulting from the fund's activity in proportion to the units he owns and the total units in the fund.

Listing and Trading of the Fund Units

Article (18)

1. The fund units may be listed and traded in the market as commensurate with its nature and according to its Offer Document and investment policy. In case the Offer Document provides for listing, the board of directors of the fund and the management service company shall take all necessary actions upon the completion of subscription.



2. The units of close-ended mutual funds intended for public subscription must be listed on the market. The ownership of units of the non-listed close-ended mutual funds shall be transferred through the management service company according to the controls set out in the Offer Document.
3. The units of the non-listed open-ended mutual fund shall be sold and redeemed through banks, brokerage companies or any other entity, provided that a permission to this effect is obtained from SCA according to the controls issued by SCA in this regard. The board of directors of the fund shall contract with any of such entities for this purpose provided that such entities must comply with the unit's price announced by the management service company and that the electronic link to the management service company and the investment manager must be made to keep them updated on timely basis of the volume of sales and redemptions.

Evaluation of Assets and Pricing of Units of the Fund

Article (19)

The management service company shall evaluate the assets of the fund at the end of every business day or as stated in the Offer Document in accordance with the internationally standards adopted in this regard, subject to the scheduled dates for the receipt of purchase and redemption orders.

Distributions and Redemption of Fund Units

Article (20)

1. No distribution or redemption of the fund units to the unit owners may be made in breach of the conditions stated in the Offer Document.
2. The fund may temporarily suspend the redemption processes for no more than ten business days subject to the approval of the fund board of directors in accordance with the conditions set out in the Offer Document. In all cases, SCA must be informed thereof.
3. After obtaining the approval of SCA and under its supervision, the fund may suspend the redemption processes for more than ten days if any of the following exceptional circumstances occurs:
 - The receipt of redemption applications concurrently in such a way that it would be hard for the investment manager to fulfil them.



- Failure by the investment manager to liquidate the assets of the fund for reasons beyond its control.
 - Dramatic and sudden decline of the prices of the fund assets.
 - Any other case approved by SCA.
4. No new applications for subscription may be accepted or executed when the redemption processes are suspended.
 5. The investment manager shall inform the fund unit owners of the allocations and cases of redemption suspension as per the notification method agreed on with them provided that all procedures are documented.
 6. The reasons of redemption suspension shall be continuously and regularly reviewed, and suspension operations must be always notified.
 7. SCA and the fund units owners must be informed of the expiration of the suspension period of redemption processes.

Assets of Fund

Article (21)

1. The assets of the fund shall be its own property and may not be pledged or lent to a third party or disposed of unless in the manner prescribed in the Offer Document.
2. No units owner, successors or creditors may request to apportion, set aside, sort or control any of the fund assets in any form or obtain lien over them.
3. The investment manager must observe, in its investment policy, the provision of an amount of liquidity that is adequate to the nature of the fund to cope with the investment-associated risks. Such liquidity can be represented in low risk investment instruments convertible to cash on demand.

Lending, Borrowing and Financing of the Fund

Article (22)

1. Subject to the approval of its board of directors, the fund may borrow no more than (10%) of the net value of its assets for not more than one year to meet redemption requests as set out in the Offer Document.



2. The mutual funds of special nature may borrow within such limits and under such controls contained in its investment policy.
3. Save for the trading by the fund in bonds, sukuk and other debt instruments contained in its investment policy, the fund may not carry out any direct or indirect lending or financing operations.
4. The fund shall only be accountable for liabilities resulting from its activity. The unit owners may not be accountable for the liabilities of the fund unless within the limits of the units they owned in the fund.

Financial Reports of the Fund

Article (23)

1. The management service company shall prepare financial reports for the Fund according to the international accounting standards issued by the International Accounting Standards Board (IASB) or the accounting standards of the Accounting and Auditing Organization For Islamic Financial Institutions (AAOIFI) for the Islamic mutual funds provided that they are reviewed or audited by the contracted external auditor of the fund as follows:
 - (a) Quarterly reviewed financial reports: such reports shall be issued no later than (45) days from the end date of the quarterly period.
 - (b) Annual audited financial reports: such reports shall be issued no later than three months from the end date of the fiscal year of the fund.
2. The management service company shall provide SCA with a copy of the financial reports set out in clause (1) above for approval. SCA may coordinate with the Central Bank in this regard for the purposes of prudential supervision.
3. The management service company shall publish a proper summary of the financial reports set out in clause (1) above in two widely circulated local daily newspapers, with at least one of them issued in Arabic, unless the nature of the fund and its Offer Document otherwise require.

General Assembly of the Fund Units Owners

Article (24)

1. The management service company shall call the units owners to meet at least once each year within a period of no more than (30) days from the date of issuing the



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- fund's annual financial reports to discuss the results achieved, approve any amendments proposed by the fund's board of directors, and endorse any amendments approved by the board of directors,
2. Without prejudice to Article (4.4) herein, the units owners may not engage or interfere in the fund management in any way.

Board of Directors of the Fund

Article (25)

1. Subject to the approval of SCA, the company establishing the fund shall appoint a board of directors for the fund consisting of an odd number of members, not less than (3) and not more than (7) members who are independent from related parties, with the necessary proficiency and expertise. If a position of a member becomes vacant, the company shall appoint a member to fill the vacancy for the remaining term of his/her predecessor, after obtaining the approval of SCA. No member of the board of the fund may be removed without the approval of SCA.
2. Subject to the provision of the preceding clause, if the fund board of directors is formed of (5) members, they must include a member representing the fund founder or the investment manager at the discretion of the fund founder. If the fund board of directors is formed of (7) members, it may include in its membership a representative for the fund founder and another for the investment manager, provided that the fund founder is not itself the investment manager.
3. The board of directors, at its first meeting, shall elect a chairman from amongst the independent members only. The term of the board membership shall be (3) years.
4. The fund board of directors shall appoint the secretariat staff to handle all its administrative work.
5. The remunerations and allowances of the board members shall be determined in coordination with the fund founder and after obtaining the approval of SCA. Such remunerations and allowances as well as all charges associated with the fund headquarters and board secretariat shall be debited to the income statement of the fund as deductible financial expenses and shall be disclosed in the Offer Document; and may only be amended by the approval of the general assembly of the unit owners and SCA.



Functions of the Fund Board of Directors

Article (26)

The board of directors shall be responsible for:

1. Contract with the parties providing the fund with services as required by the nature of the fund and these Regulations.
2. Appraise the performance of all contracting parties and replace any of them, if required.
3. Ensure that there is no conflict of interests between the contracted parties, organize the relations between them and follow up the actual performance of all parties to verify the implementation of all tasks assigned to them as required.
4. Ensure that both the internal auditor of the investment manager and the internal auditor of the management service company carry out their tasks and that there are no violations or obstacles in their work related to the fund.
5. Approve the financial statements of the fund and ensure compliance with the rules of disclosure especially in connection with the material events, and inform the unit owners of such statements and/or announce and/or periodically publish same, as per the business nature of the fund and according to its Offer Document, in the manner that ensures that the unit owners are fully informed of the real position of their financial investments and that no information that might affect their investment decisions is concealed.
6. If the mutual fund is an Islamic mutual fund, the fund board of directors must establish the appropriate rules and controls and follow up their implementation to ensure the following:
 - Compliance by the fund with the Shariah decisions, fatwas and guidelines issued by the Shariah Supervisory Committee of the fund.
 - Not to engage in any activity, place any investment or carry out any of the fund business before it is approved by the Shariah Supervisory Committee of the fund.
 - Provide all data and information, periodically and upon request, to allow the Shariah Supervisory Committee to carry out its tasks of Shariah review and audit of all the business of the fund to ensure that they conform with the provisions and principles of Islamic Shariah.



- Ensure that the Shariah Supervisory Committee of the fund is fully independent through internal bylaws that ensure the same and organize its functions and meetings.

Disclosure and Availability of Information

Article (27)

1. All related parties, each in its area of responsibility, shall use due diligence to provide adequate and accurate information to the current and prospective unit owners to enable them to take their investment decisions. Each party shall keep the documents and documentations pertinent thereto for at least (10) years.
2. The management service company shall send a quarterly report to the fund unit owners – electronically or by mail – indicating the net value of the fund assets at the end of the quarter period, the number of existing units, the share of each unit of the assets net value, total expenses, commissions and burdens incurred by the fund from the beginning of the year, the ratio of such expenses to the total assets of the fund, the outcome of purchase and sale transactions, commissions and expenses paid, the turnover of the fund assets, and the ratio of returns generated since the beginning of the year, and detailing the profits distributed during the year preceding the report's date.
3. The investment manager shall promptly disclose to SCA and unit owners any information or material events that have affected or may affect the fund.
4. Each of the company that established the fund and the management service company shall independently make prompt, regular and permanent disclosures of all data and information pertinent to the fund being established or to the provision of management services according to the method prescribed in the Offer Document.

Conflict of Interests and the Membership of Fund in Companies' Board of Directors

Article (28)

1. All related parties must avoid the conflict of their interests with those of the fund to which they provide services, and avoid any conflict of interests between the funds to which they provide services. The Offer Document shall contain the method of avoiding or resolving any conflict of interests as it arises.



2. Neither the mutual fund nor any member of its board of directors may be a member in companies' boards of directors where it invests part of its monies. Furthermore, the investment manager or any members of its board of directors, officers or employees as well as members of the *Shariah* Supervisory Committee of the Islamic mutual fund, may not represent in their personal capacity in the boards of directors of companies where the fund invests part of its monies in the shares thereof.
3. SCA may exclude certain funds of special nature from the provision of clause (2) above.

Oversight and Inspection of Mutual Funds

Article (29)

1. The Central Bank shall carry out oversight and prudential supervision tasks pertinent to the financial position of the mutual funds established and licensed in accordance with the provisions of these Regulations. The Central Bank shall prepare inspection reports and send copies thereof to SCA to take the necessary action. SCA shall be consulted with the Central Bank in respect of the penalty if any violation is evident.
2. Subject to the provisions of item (1) herein, SCA shall take all necessary actions to protect the investors in accordance with its law and regulations, including in particular, supervision, oversight and inspection of mutual funds with respect to trading made by the funds, redemption of units and relation between brokerage companies and all concerned parties. To this effect, SCA shall have all authorities that enable it to have access to, and request any data, information and documents and request reports from the Central Bank. The board of directors of the fund, the investment manager and all other concerned parties must immediately respond to all data and periodical reports requested by SCA which enable it to determine the real financial position of the fund and ensure that the officers managing the fund comply with the provisions of relevant laws, these Regulations, the Offer Document of its units, the decisions and *Fatwas* of the *Shariah* Committee for Islamic mutual funds.
3. SCA may impose minimum and maximum limits for any consideration for management, supervision or services, commission or fees received by any of the parties associated with the fund.
4. SCA may request the board of directors of the fund to publish any information it thinks necessary to protect the investors and maintain good work progress of the fund.



5. SCA shall provide the Central Bank with reports on the position of the fund relating to clause (2) herein.

Termination of Fund

Article (30)

1. The fund shall terminate if its term determined in the Offer Document expires and not renewed; or if the purpose for which the fund was established has been achieved; or if the fund encountered circumstances that prevented the practice of its activity; or if the owners of the close-ended mutual fund units wanted to liquidate the fund according to the provisions of the Offer Document thereof. The liquidation provisions of joint stock companies as stipulated in the Commercial Companies Law shall apply to the fund liquidation, where no specific provision is included in the Offer Document thereof.
2. The fund may only be liquidated after obtaining the approval of SCA.

CHAPTER II

PROVIDERS OF SERVICES TO THE MUTUAL FUND

General Obligations

Article (31)

- I. All service providers of the fund shall:
 1. Enter into contracts to provide their services to the fund, provided that such contracts shall state the rights and obligations of each party, the consideration received by the service provider, the basis of its calculation and dates of payment, procedures taken upon expiry or termination of the contract, steps of transferring the service to be provided by another service provider and the method of transferring the books and records required to render the service without affecting the work progress.
 2. In the course of practicing their work, comply with all provisions of relevant laws, the provisions of these Regulations, the Offer Document and the investment policy of the fund and the instructions or directives issued to them.
 3. Exert their best efforts to accomplish full cooperation and coordination between each service provider and the remaining providers of services to the fund and its board of directors. An electronic system and a manual one shall be developed to



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- exchange information and data between all parties to ensure the workflow and information sharing according to the agreed mechanism upon contracting.
4. Provide SCA with all reports and data requested periodically or when needed, not to withhold any information or data, and to disclose any violations as they occur, as well as the proposed or implemented means to cope therewith.
 5. Not to disseminate any false or incomplete data or information or which they have no right to disseminate, or conceal significant data or information from the entities that have the right to know; maintain confidentiality of data or information they have and not to use the same in a manner that may be detrimental to the unit owners, whether with or without consideration.
 6. Both the investment manager and the management service company of the mutual fund shall, in particular, observe the following:
 - a. Not to deal with the units of the funds to which it provides services, whether for its own account or for a third party's account, based on insider information. They shall establish the rules ensuring that their employees do not deal with the units of such funds based on such insider information. Furthermore, the real estate evaluator working for a real estate investment trust shall comply with the same.
 - b. Appoint an internal controller and provide him/her with the material and procedural resources and the authorities to facilitate his/her work and allow him/her to perform all tasks of his/her job freely and independently without exercising any pressures thereon that may limit his/her performance, in a manner to allow him/her to follow up the application of relevant laws and regulations on all transactions of the fund to which he/she provides services; and allow him/her to detect any violations and take necessary actions to cope therewith on timely basis.
 - c. Establish all such rules, regulations and procedures as may be imposed or required by SCA to regulate their internal control thereof.
- II. In special cases and subject to the approval of SCA, the providers of services to the mutual funds may outsource other service providers to provide all or some of the services assigned to them provided that the responsibility for the performance of such tasks shall remain with the services provider under contract with the fund pursuant to the applicable laws, rules and regulations.
- III. The providers of services to the mutual fund may provide more than one service to the fund, as per the schedule annexed herewith.



Obligations of the Investment Manager

Article (32)

The key obligations of the fund's investment manager shall be as follows:

1. To exert due diligence in managing the fund assets as expected from a professional person with extensive expertise in the field of the mutual fund business. Its management must be assigned to technical staff or specialized employees in such a form and manner that ensure the financial independence of the fund from all other parties as well as from any other mutual funds it is managing, and to keep independent accounts for each fund.
2. To abstain from any act or action that may create conflict of interests upon investing the fund's assets; and abstain from any action that may result in unnecessary increase in the costs of the fund or its risks; and must endeavour to safeguard the interests of the fund in each action or procedure.
3. To exert its best effort to examine the financial position of the companies and assets where the assets of the fund it is managing are to be invested. It shall diversify such investments to minimize investment risks which the fund assets are exposed to. It may not use such assets to influence the rates of securities in the market.
4. To continuously verify that cash assets meet its rating criteria as cash assets and its proportion to the total assets of the fund.
5. Neither itself nor any of its personnel may obtain any gains or special privileges from the fund other than the agreed management fees. It may not have any interest of any type with the companies in which the fund invests through sale or purchase transaction, or with which the fund deals in the course of practicing its activity.
6. To distribute or ensure the distribution of sale and purchase transactions to many brokers in the market where the fund operates and ensure the achievement of the "best execution" and not to be biased to some in a manner that achieves special gains for it or compromises the rights of the unit owners. It may not fabricate transactions to increase the commissions, fees or expenses of other parties.
7. To exert due diligence and best effort to ensure the fund's control over all assets and secure them against any risks resulting from incomplete transfer of title of such assets to the fund in the required timing and manner.
8. To establish effective policies to manage the liquidity and redemption suspension processes.



9. To provide the adequate amounts of liquidity in the fund to enable the fulfilment of the obligations of the fund towards third parties due to the activity practiced by the fund and towards the unit owners who wish to redeem the value of part of their units in the fund if the nature of the fund permits so in accordance with the controls prescribed in the Offer Document.
10. Under any circumstances, not to evaluate the assets of the fund it manages or calculate the price of its units for purpose of providing the same to parties outside its company or of announcing the same, unless required to do so by SCA.
11. To take all necessary steps to ensure the accuracy of the evaluation of the fund assets and the price of the fund's units calculated through the management service company and take all actions necessary to amend and rectify any material errors that affect the evaluation of the fund's assets and the pricing of its units.
12. Not to invest the assets of the funds it manages in each other, unless so permitted by the offer documents and investment policies of the concerned funds.
13. Not to invest in the units of the fund to which it provides services, unless this is provided for in the Offer Document provided that the limits and restrictions of such investment are determined.

Functions of the Management Service Company

Article (33)

The key functions of the management service company shall be as follows:

1. To control and oversee the dealings of the investment manager to ensure that the fund assets are managed according to the laws and regulations governing the business of the fund as well as the Offer Document of the fund.
2. To open one bank account or more in the name of the mutual fund to which it provides its management services with a bank operating in the UAE in order to be used in all financial transactions related to the fund, unless the nature of the fund permits otherwise.
3. To follow up on the periodical movement of the investors' purchases of the fund units and redemption processes as per the nature of the fund and to ensure that the bank accounts of the fund reflect such operations related to the open-ended mutual funds. In all cases, it shall keep records to record the data of the unit owners and update them with any changes made thereto whether in the data or balances; and to keep the investment manager informed of the financial position on daily basis.



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4. To follow up on the daily movement of the purchase and sale transactions processed by the investment manager; take the necessary steps to fulfil obligations; collect the rights of the fund; and ensure that the accounts of the fund with the bank and accounts of book balances in the records with the safe custodian reflect such transactions.
5. To follow up and ensure complete control by the fund over all its assets and ensure the complete transfer of title of such assets to the fund on timely and orderly basis, unless the nature of the fund permits otherwise.
6. To perform evaluations of the fund assets and calculate the prices of its units according to the bases and rules set out in these Regulations and the Offer Document and as per the nature of the fund and its periodical announcements.
7. To ensure that the investment manager applies the investment policies of the fund.
8. To collect dividends prescribed for the fund investments; distribute any dividends payable to the fund unit owners according to the investment policy and the dividends distribution policy; and inform SCA and the concerned market of the dates of disbursement of such dividends and announce the same in the concerned market through the trading monitors or in daily newspapers according to the nature of the fund.
9. To inform the board of directors of the fund on timely basis of any violations or breaches that may be committed by the investment manager and inform SCA of any material violations.
10. To keep the necessary books and records to perform its assignments; prepare periodical financial reports for it and for the fund according to international accounting standards or the accounting standards of the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI) for Islamic mutual funds and provide SCA with a copy such reports certified by the auditors.
11. To perform the contact, communication and disclosures to SCA and unit owners in the manner set out in Article (27) herein and as related to general assembly meetings of the unit owners.
12. To pay the annual fees prescribed by SCA for the fund.



Functions of the Safe Custodian

Article (34)

The key functions of the fund's safe custodian shall be as follows:

1. To keep in safe custody the securities in which the fund invests its assets.
2. To keep title deeds for the assets in which the fund invests its monies.
3. To keep all documents, papers, contracts and licenses pertinent to the assets of the real estate investment trust.
4. To follow up the daily movement of purchase and sale transactions processed by the investment manager or whoever is assigned this task as per the nature of the fund; and take the necessary steps to transfer balances from and to the fund according to the nature of the transaction.

CHAPTER III

PROMOTION OF THE FOREIGN FUND UNITS WITHIN UAE

Prerequisites for the Promotion of Foreign Mutual Fund Within UAE In a Public Offering

Article (35)

1. The foreign mutual fund wishing to obtain the approval of SCA to promote its units within the UAE in a public offering must satisfy the following prerequisites:
 - a. The fund is established in a foreign country and subject to the oversight of a regulator similar to SCA.
 - b. The fund is licensed to promote public offerings in its home country.
2. SCA shall have the right to impose more conditions or exempt from certain condition or request any documents as it deems fit for the circumstances of each case.



Promotion of a Foreign Mutual Fund Within UAE in a Private Offering

Article (36)

1. Foreign mutual funds may be promoted in private offering within the UAE after obtaining the approval of SCA. SCA shall have the right to impose any conditions or request any documents as it deems fit for the circumstances of each case.

Application for Promotion

Article (37)

1. Prior to any promotion, an application for the promotion of foreign mutual fund units must be submitted to SCA by the local promoter on the forms prepared by SCA enclosing the documents stated in the form for each fund wishing to promote its units within the UAE.
2. SCA shall issue its decision approving or rejecting the application within a period of no more than (30) business days from the date in which all required data and documents are completed. SCA may restrict the approval by any conditions or controls as it deems necessary.
3. SCA may suspend the decision approving the promotion within the UAE temporarily or finally for reasons of public interest, or if necessary.

Local Promoter

Article (38)

1. The units of foreign mutual funds may not be promoted within the UAE except through the following entities:
 - (a) Banks licensed by the Central Bank;
 - (b) Investment companies licensed by the Central Bank; or
 - (c) Companies licensed for this purpose by SCA.
2. Without prejudice to clause (1) herein, the units of the foreign mutual funds may be promoted within the UAE in private offering through the representation office of the foreign company, provided that the promotion in such case shall be to institutions only and subject to a minimum of (10) million Dirhams per subscriber.



3. The local promoter or the representation office of the foreign company, as the case may be, shall provide all mechanisms that enable the fund that is promoting its units to perform all its duties and obligations towards the target unit owners in the UAE according to the Offer Document.

Obligations of the Local Promoter of a Foreign Fund

Article (39)

The local promoter for a foreign fund shall:

1. Exert due diligence when selecting the foreign mutual fund to be promoted within the UAE and follow up the performance of such funds after the promotion, to safeguard the assets of investors.
2. Keep a record for the units of the foreign fund distributed through the promoter including the following data:
 - (a) For individuals: Names, addresses, numbers of ID cards or passports and number of units of each individual.
 - (b) For companies: Names, registered offices, numbers of commercial registration and number of units of each company.
 - (c) The date of entering the name of a person or company in the record.
 - (d) Any other data associated with unit owners.
3. Ensure that the investor in the foreign fund receives a copy of the Offer Document of the fund units, whether the offering was public or private, before the investor subscribes to the units of the foreign fund.
4. Ensure that there is a daily rate available for the fund unit, or according to the Offer Document, or the share of each unit in the net assets of the fund and provide the suitable means to enable the investors in the UAE to have access thereto.
5. Provide the suitable means to enable investors in the UAE to have access to disclosures and substantial information of the fund, reports and financial statements issued by the fund during the same period in which they are available for the fund's unit owners in its home country.
6. Hand over to the subscriber a proof of its subscription in the fund, the units allocated / purchased for the subscriber and the document that guaranties him the exercise of all rights of ownership of such units.



7. Ensure that the subscriber was advised, before making the subscription, that the approval of SCA of the fund promotion within the UAE does not represent a recommendation to purchase or invest in the fund and that SCA may not be held liable for any default by any of the concerned parties in the fund in the performance of its tasks and duties, or the accuracy and integrity of the data in the subscription prospectus. Such liability shall be respectively held by all parties specified in the subscription prospectus. The subscriber's signature thereon shall be obtained.
8. The local promoter may assume the tasks of distributing the dividends to the unit owners and/or return the units to owners who wish to do so as per the announced rate and in conformity with the Offer Document of the foreign fund, unless the founder of the foreign fund assigns both tasks to another entity within the State.

Methods of Promotion and Determination of Target Investors

Article (40)

1. The methods of promotion of foreign mutual fund units approved by SCA to be promoted within the UAE in a private offering shall be confined to direct contact with predetermined persons.
2. As for the promotion of the foreign mutual fund units approved by SCA to be promoted within the UAE in a public offering, it shall be made through all methods of promotion and for all investors.

Minimum Subscription Per Single Investors

Article (41)

1. The minimum subscription per a single investor in the units of foreign mutual fund approved by SCA to be promoted in a private offering shall be the limit set out in the Offer Document, provided that it may not be less than (AED 500,000) five hundred thousand Dirhams for a foreign mutual fund and (AED 1,000,000) one million Dirhams for a mutual fund established in a free zone outside the UAE.
2. By way of exception from the provision of clause (1) herein, the minimum subscription per a single investor in one or more mutual funds shall be the limit set out in the Offer Document in either of the following cases:
 - a. The subscriber is engaged through a portfolio management contract with an investment manager licensed by SCA, provided that the authority to take and



implement the investment decisions is held by the portfolio manager and not the subscriber.

- b. The subscriber is involved in a saving and investment plan on periodical basis with equal monthly or quarterly payments for a period not less than two years and for a total amount per plan of at least (AED 75,000) seventy five thousand Dirhams, or the equivalent in foreign currencies.
3. The minimum subscription per investor in the unit of a foreign mutual fund approved to be promoted within the UAE in a public offering shall be the limit set out in the Offer Document.

CHAPTER IV

FINAL PROVISIONS

Controls for Mutual Funds of Special Nature

Article (42)

Subject to the provisions contained in these Regulations, the controls issued by SCA in this regard shall apply to mutual funds of special natures, including the real estate investment trust, exchange taded fund and all related parties.

Appeal of SCA Decisions

Article (43)

1. SCA decisions rejecting or cancelling the license to establishing a local fund, or rejecting, cancelling or suspending the approval of foreign fund promotion may be appealed. The appeal shall be submitted to the Chairman no later than fifteen (15) business days from the date of notification of such decision.

The Chairman shall decide on the appeal no later than thirty (30) business days from the date of submitting the appeal. If the appeal has not decided on within this period, this shall be considered dismissal of the appeal.

2. The person whose appeal is dismissed or considered dismissed may file a lawsuit to the competence court within sixty (60) days from the date of notifying the appellant that his appeal was rejected or the date on which the period for consideration by the Chairman has elapsed. The lawsuit challenging the decision of SCA may not be filed before the relevant appeal and the issuance of the decision of dismissal, expressly or implicitly.



Violations and Penalties

Article (44)

In cases of violations against the provisions of these Regulations or the decisions and controls issued hereunder, SCA shall impose one or more of the following penalties on the violator, whether it was form the fund or any of the related parties:

1. Warn the violator and enforce him to remedy the violation within a period determined by SCA.
2. A Fine of no more than the maximum limit provided for in the law.
3. Suspend the license or the approval for no more than one year.
4. Cancel the license or the approval issued by SCA.

Upon the issuance of a decision to suspend or cancel the license, the Central Bank shall be immediately informed of the same.

Fees

Article (45)

SCA shall issue a decision to determine the fees to be collected when licensing a fund and for annual renewal, the fees for obtaining approval of the promotion of foreign mutual fund units within the UAE and any other fees payable for services pertinent to the implementation of these Regulations.

Article (46)

SCA shall issue the decisions and forms necessary to enforce the provisions of these Regulations.



Adjustments by the Existing Funds

Article (47)

Entities practicing mutual fund activities before this decision must adjust and rectify their positions to conform with the provisions of this decision within no more than one year from the date of publication in its Official Gazette.

Article (48)

This decision shall be published in the Official Gazette and shall come into force from the day following the date of its publication.

[Signed]

Eng. Sultan Bin Saeed al Mansoori

Chairman

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