



Australasian
Compliance
Institute



**DEVELOPING COMPLIANCE
ARRANGEMENTS
INDONESIAN INVESTMENT MANAGERS**

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OVERVIEW

1. MAPPING COMPLIANCE OBLIGATIONS

8.45 am to 10.00 am

- Consider the compliance obligations in Bapepam-LK rules IV.B.1 and IV.B.2 and Capital Markets Law Number 8 Year 1995 in light of the organisation structures and business functions of an investment manager. Examples in Part 2 of Toolkit

MORNING TEA BREAK

2. DEVELOPING COMPLIANCE ARRANGEMENTS

10.30 m to 11.15 am

- Develop arrangements for key business functions to manage each compliance obligation. Examples in Part 2 of Toolkit

3. REVIEWING EXISTING COMPLIANCE ARRANGEMENTS

11.15 m to 12 noon

- Ensure compliance arrangements continue to address all compliance obligations, and provide clarity to staff. Examples in Parts 1 and 2 of Toolkit

LUNCH BREAK

4. REPORTING TO THE BOARDS

1.30 am to 2.45 pm

- Understand the types of governance structures that may operate in the investment manager and their reporting lines
- Consider the nature and detail of periodic compliance reports to the Boards. Examples in Part 1 of Toolkit

AFTERNOON TEA BREAK

5. MONITORING COMPLIANCE

3.15 pm to 4.00 pm

- Consider the types of monitoring mechanisms that may be included in compliance arrangements. Examples in Parts 1 and 2 of Toolkit

6. WORKING WITH KEY STAKEHOLDERS

4.00 pm to 4.30 pm

- Consider the variety of stakeholders with whom compliance professionals must work to deliver effective outcomes for the investment manager
- Consider ways to establish relationships with, and work with those stakeholders

OBJECTIVES

Indonesian investment managers must be licensed by Bapepam-LK to issue fund products to investors. The operation of effective arrangements to ensure compliance with regulatory requirements within each investment manager contributes to developing a strong industry. Investment managers continue to be licensed, and investors continue to receive the benefits of a regulated industry.

This program is designed for compliance professionals who need to develop new compliance arrangements in investment managers, or to review and update existing compliance arrangements. This program will also assist people who are new to compliance and who seek an introduction to compliance concepts and practice.

In Part 1 of the Toolkit we will undertake the types of analysis required to develop effective compliance arrangements.

Part 2 of the Toolkit provides examples of compliance arrangements. We will discuss aspects of these examples as we work through Part 1 in the program today.

This program considers major elements of compliance including:

- Mapping compliance obligations – understanding what the law, decrees and rules require investment managers to do
- Developing arrangements so that each business function can manage its compliance obligations, and reviewing and updating those arrangements as circumstances change
- Understanding the extent to which these compliance arrangements are implemented, and making sure any problems of non-compliance are found and fixed
- Working with key stakeholders in the business including the Boards, and with the regulator

We will not have time in one day to consider the entire range of regulatory requirements that investment managers must address in their compliance arrangements, however:

- By the end of today you will have used the types of analysis used by compliance professionals, and you will have considered the application of these approaches as a compliance professional in your organisation.
- After today you will be able to use the materials in Part 2 of the Toolkit as a reference as you provide a governance service to the Boards, design and implement compliance arrangements with managers and staff in business functions, and as you work with the regulator, Bapepam-LK.

PART 1 - ANALYSIS

1. MAPPING COMPLIANCE OBLIGATIONS

Sources of compliance obligations

A licensed investment manager needs to understand clearly what the law, decrees and rules require, to address those regulatory requirements effectively, taking account of the nature, size, complexity and organisation structures of the business.

Some general obligations are applicable to all investment managers. Some specific types of obligation depend on the types of fund offered by a particular investment manager.

Some regulatory requirements may be noted in the collective investment contract or in the prospectus. Statements made in those documents need to accurately reflect the requirements established by law, decrees and rules.

The regulatory framework is mapped onto the organisation structures of the business

Each obligation in the law, decrees and rules, and obligations established in any other documents, must be matched with the business function that is best able to ensure compliance with that obligation. For example, compliance obligations relating to financial statements and audit for a fund would be best addressed by the business function that deals with accounting and finance.

- The structure of the regulatory framework is unlikely to be the same as the organisation structure of an investment manager's business.
 - Obligations best managed in one business function may be discussed in several different rules.
 - Many different compliance obligations may be discussed in one rule. However those obligations may be best addressed in various business functions.
- The key is to structure compliance obligations so it is easy for the people working in business functions to understand what they need to do, when, and how they can do it.

To map obligations, compliance professionals, perhaps assisted by lawyers and/or by staff from business functions, undertake a structured and systematic review of all law, decrees and rules and other documents to understand the relevant compliance obligations, and to decide how those requirements can be met in the business.

Sometimes people take a view that it is the person employed to be in charge of compliance who is responsible for ensuring compliance with ALL obligations, and so there is no need to map compliance obligations to business functions. However, experience shows that where people within business functions accept responsibility for compliance with relevant obligations, there is a much higher standard of compliance. This requires significant cooperation between business functions and compliance professionals.

Toolkit Part 2 – Compliance obligation examples

Examples of mapping are based on Bapepam-LK rules IV.B.1 and IV.B.2, and those parts of Chapters IV and V of Capital Markets Law Number 8 Year 1995 relevant for investment managers offering funds based on collective investment contracts. Business functions are set out in Bapepam-LK rule V.D.11, and of course the organisation structures of each investment manager are likely to vary.

1. Obligations are listed as they are presented in rule IV.B.1. Other similar compliance obligations in rule IV.B.2 and in the Capital Markets Law have been noted underneath each relevant obligation in rule IV.B.1. Obligations in rule IV.B.2 and the Capital Markets Law not also in rule IV.B.1 are included at the end of the list.
2. The column which identifies the source of each obligation can be used as a checklist, after the mapping process is complete, to make sure that ALL regulatory requirements have been considered.
3. In this example, assumptions have been made about the organisation structures of the investment manager – the activities performed by each business function. You will need to think about the organisation structures of your own business to determine where each activity is performed, and so identify the most relevant business function in your firm to manage each compliance obligation.
4. Although not demonstrated in the example here, when you map compliance obligations you may also wish to identify the relevant standard operating procedures for each activity. You need to know this when you go on to develop your compliance obligations.

Some parts of rule IV.B.1 establish obligations for the custodian bank. You need to consider whether the investment manager also has compliance obligations arising from these requirements. For example, the investment manager may need to check whether the custodian bank has taken certain actions, or the investment manager may need to reconcile its financial records or its unit holder records with those of the custodian bank.

Some points in rules IV.B.1 and IV.B.2 establish powers for Bapepam-LK. An investment manager must be aware of these powers, and may need to establish compliance arrangements, for example to cooperate with the regulator in certain circumstances.

Point 20 rule IV.B.1

Bapepam-LK shall have the authority to transfer, freeze, and hold assets as well as to authorise other investment managers to manage the assets of an investment fund, to liquidate an investment fund, or to perform any other action to protect the interests of unit holders.

Point 42 rule IV.B.1 and Point 18 rule IV.B.2

Without affecting the criminal provisions in capital market law, Bapepam-LK may impose sanctions for any violation of this rule, including sanctions against any person who causes a violation to occur.

2. DEVELOPING COMPLIANCE ARRANGEMENTS

Comparison of compliance procedures and operating procedures

Operating procedures describe the steps that need to be taken so the business operates effectively, doing what needs to be done, and efficiently, working without wasting resources.

Compliance procedures describe the steps that need to be taken so that, as a regulated entity operates its business, it complies with the obligations in the regulatory framework for that type of business.

Sometimes compliance procedures are the same as operating procedures.

Sometimes compliance procedures are steps required in addition to operating procedures.

- Additional compliance procedures often relate to monitoring and reporting.
- A regulated entity must know that it is complying at all times - which it can know only by monitoring whether procedures are implemented, and by checking from time to time to make sure operating and compliance procedures are sufficient
- A regulated entity must also be able to demonstrate that it is complying - which can only be achieved by keeping records of monitoring, and by appropriate reporting.

Compliance procedures for business functions

For any compliance obligation, once the relevant activities and business functions have been identified, detailed procedures are written including:

1. The actions that need to be taken by staff to achieve compliance.
 - o As noted above, these actions, the compliance procedures, are steps that may be the same as, or in addition to operating procedures.
 - o Compliance procedures are usually easier to implement if they are integrated into operating procedures, and made a normal part of running the business.

2. The monitoring that will be undertaken by senior staff of the business function and/or by compliance professionals to check that there is compliance with the obligations in the regulatory framework.
 - Generally, business functions are entirely responsible for effective implementation of operating procedures, and business functions share responsibility, with compliance professionals, for effective implementation of compliance procedures.
 - Senior staff of business functions report ALL non-compliance to compliance professionals, describing how issues of non-compliance have been or will be resolved.
 - Compliance professionals may assist senior staff to resolve complex issues. For example, it may be that compliance procedures are not clear, or that staff need further training or further encouragement to apply compliance procedures.

When detailed procedures have been written to address each compliance obligation at the level of the business function, these form the major part of the investment manager's compliance arrangements.

Other aspects of compliance arrangements

Compliance arrangements also include:

- Governance messages, delivered by the Boards to managers and staff, to explain the importance of compliance.
- Periodic reporting by compliance professionals to the Boards, based on the results of monitoring, to demonstrate that compliance arrangements are being implemented effectively, and to explain how any problems are being resolved. Compliance is of great interest to the Boards because ongoing effective compliance practice enables an investment manager to continue to hold its licence. Demonstrations of compliance to the Boards also assist a licensed investment manager to demonstrate compliance to the regulator. Reporting includes:
 - The chart of organisation structure showing compliance reporting lines (See examples in Part 2)
 - Standard reporting templates
 - Documentation and record-keeping systems

Features that make compliance arrangements easy for staff to use

Documentation enables the Boards, staff and the regulator to ensure that all compliance issues are being addressed.

- Document compliance arrangements in a standard format. If comprehensive compliance arrangements have been established for a long time, and have been working effectively even though they are not written in a standard format, they may not need to be changed. (The costs of change can be high.) However there does need to be demonstration of effectiveness for a period of time.
- Describe the major procedures, systems and structures the investment manager uses to ensure it complies with all regulatory requirements.
- Use a contents list to show the structure of the compliance arrangements. (See example in Part 2)
- Describe the business and the types of funds offered, to assist staff to understand the relevance of particular compliance requirements.
- Explain compliance procedures in uncomplicated language, avoiding legal and industry jargon. Staff must understand clearly what they are required to do and how to do it.
- Avoid repetition.
- Specify timeframes: 'at least 6 monthly' or 'at least every month' are more precise than 'periodic' or 'regular'.
- Accurately reflect operational business practice. Compliance arrangements must be updated when business practices change and when the regulatory framework changes.
- Make clear and specific references to relevant documents, such as standard operating procedures. Compliance arrangements do not need to describe operating procedures in detail if that information is readily available elsewhere and if clear references are made those sources of information within the compliance arrangements.

Toolkit Part 2 – Compliance arrangement examples

Sample compliance arrangements have been developed for some of the regulatory requirements addressed in rules IV.B.1, IV.B.2 and Capital Markets Law. Assumptions have been made about the existence of appropriate operating procedures.

The standard format for these examples of includes:

- Summary of each obligation and its source (law, decree, rule)
- Steps the investment manager will take to ensure compliance (including monitoring and checking), with specific reference to relevant operating procedures
- Timing – when steps are taken
- The senior staff member in the business function and/or the senior compliance professional responsible to ensure the steps are taken

These examples of compliance arrangements need to be further developed based on a complete mapping of ALL regulatory requirements in the law, decrees and rules. Such complete mapping would also lead to the development of other compliance arrangements. That is, the examples provided in Part 2 of the Toolkit are partial examples.

3. REVIEWING EXISTING COMPLIANCE ARRANGEMENTS

Compliance arrangements need to be reviewed from time to time, for example, because:

- The existing arrangements were written at a time when compliance practice was less well-developed in the investment manager. For example, the existing arrangements may not be easy for staff to understand.
- The regulatory framework, or the business, or the business environment may have changed. For example, there may be new rules, or the investment manager may have increased the range of products offered to investors, the business may have restructured, or there may have been significant upgrades in information technology or business processes. Arrangements should be reviewed at least annually, and at the time of any significant changes, to ensure that compliance arrangements continue to reflect actual business processes and relevant regulatory requirements.
- There have been significant instances of non-compliance arising from lack of clarity or inadequacies in compliance arrangements.

Compliance professionals:

- work with relevant business functions to update compliance arrangements and to train staff, if necessary.
- report at least annually to the Boards on the continued adequacy of compliance arrangements

Approach to reviewing compliance arrangements

Consider how well arrangements accurately identify:

- Each obligation and its source (law, decree, rule)
- Steps the investment manager will take to ensure compliance (including monitoring and checking), with specific reference to relevant operating procedures
- Timing – when steps are taken
- The senior staff member in the business function and/or the senior compliance professional responsible to ensure the steps are taken

Exercise - comment on the following compliance arrangements

Consider these two arrangements on the following page in light of the approach suggested above. Are they sufficient? Compare them with the extended examples of compliance arrangements in Part 2 of the Toolkit.

1. Payment of fees and expenses

The Head of the Accounts Payable Team makes sure that expenses and management fees are valid and not overpaid.

- He checks all invoices to ensure goods or services were received and were related to the scheme
- He sends a summary of approved expenses with copies of invoices to the Head of Finance who arranges payment. Two directors must sign each cheque.
- He calculates and accrues the investment manager's fee each month, in accordance with the approach described in the prospectus

The Head of Finance prepares monthly management accounts, a list of expenses paid in the month and a cash flow forecast for the next 12 months, demonstrating that the fund manager will be able to pay its expenses, and explaining any proposed expenditure greater than Rp 10,000,000.

2. Redemptions and subscriptions

Person responsible: Head of Administration

Working with: Client Liaison Officer in the Custodian Bank

Source of obligation: Collective investment contract and prospectus

Risks: Subscription or redemption money is paid to the wrong entity
Investor does not have the current prospectus and is relying on out of date information
Units are issued at the wrong price, causing loss to investors or the fund

Redemptions and subscriptions are not processed on time. The price paid is not the price expected by the investor

Procedures:

- All redemptions and subscriptions are considered, approved and processed in accordance with Part II, Section 3 of the Administration Procedures Manual
- Incomplete redemption and subscription forms are sent back to the investor for amendment and resubmission
- Application money is deposited in a separate account operated by the custodian bank until the correct redemption or subscription form is received
- The Administration Procedures Manual is reviewed annually and after any changes in the regulatory framework to ensure procedures are still appropriate

4. REPORTING TO THE BOARDS

For compliance arrangements to be implemented effectively, the Boards must understand what is happening. One of the major ways the Boards engage with compliance is through receiving, considering and responding to reports prepared by compliance professionals, at regular Board meetings, or for unexpected and highly significant matters, outside regular Board meetings.

Subsequent to Board meetings, Board decisions may be implemented by compliance professionals and by other senior staff of the investment manager, subject to Board direction.

While compliance professionals may usually report to the Board of Directors, they may also report directly to the Board of Commissioners if the need arises.

- The effectiveness of compliance arrangements must be demonstrated regularly. One instance of serious non-compliance, or a series of smaller instances of non-compliance, might affect the investment manager's ability to continue to hold its licence.
- To maintain effective compliance arrangements, the Boards also need to know about:
 - any significant transactions that affect fund assets
 - any proposed related party transactions
 - any significant investor complaints, or patterns of complaints
 - any significant new risks, or changes in the business or regulatory environment
 - relevant matters noted by other governance structures of the investment manager
- Compliance professionals may make recommendations to the Boards regarding proposed significant changes to compliance arrangements, and messages to be delivered by the Boards to all managers and staff to strengthen compliance practice. For example:
 - Failure to report non-compliance is treated seriously. There is a 'no blame' policy for non-compliance, unless fraud is involved, but there are serious disciplinary consequences for not reporting non-compliance.

The Boards need to consider compliance reports no less than quarterly, but this may be monthly:

- Any serious issue of non-compliance must be brought to the attention of the Boards outside the schedule of regular Board meetings.
- Depending on the nature of the matter and its impact on the investment manager or on investors, a serious issue of non-compliance may also need to be discussed with the regulator.

Governance structures of the investment manager

Depending on the size of the licensed investment manager, and whether the manager is part of a group of financial service companies, a number of different teams and committees might contribute to the effectiveness of compliance in the investment manager.

Governance structures may include, for example:

- Compliance function
- Risk Management function
- Complaints Management function
- Internal Audit Team
- Legal Counsel Team
- Compliance Committee
- Audit Committee

The functions of these governance structures may be described as follows, noting that:

- Governance functions may be shared differently amongst teams and committees in different organisations.
- In licensed investment managers which have fewer teams and committees, the compliance team may take on more functions.

Compliance function

The compliance function is made up of compliance professionals. The Head of Compliance usually has a minimum of 5 years experience working in compliance in an investment manager. Compliance professionals may also have expertise and qualifications in disciplines such as law, commerce, audit, risk management or process design. Compliance professionals may previously have worked in other areas of the investment manager's business operations.

The compliance function is responsible to work with the Boards, other governance teams and committees, and with business functions, to ensure that systems and procedures are in place and operating, enabling implementation and reporting about the effectiveness of compliance arrangements. This includes:

- Providing business functions with information about best practice, and assisting with process design
- Assisting with monitoring of the effectiveness of compliance arrangements
- Ensuring managers and staff in business functions have access to appropriate procedure manuals and relevant compliance arrangements, and that they receive training and updates at team meetings so they understand what they are required to do
- Remaining up-to-date with changes in regulation, the business, and the business environment. Ensuring all relevant changes are taken into account in the investment manager's compliance arrangements, after discussion with relevant governance teams and committees, business functions and the consideration of the Boards
- Ensuring documentation and record-keeping systems are sufficient to demonstrate compliance to the Boards and to the regulator. This includes paper-based and computerised records (including electronic databases and workflow systems, data backups and disaster recovery plans) for:
 - Board agendas and minutes including decisions
 - Compliance and Audit Committee agendas and minutes including decisions (if these committees have been established)
 - Risk management plans and reports
 - Accounting and administration
 - Investment and valuation decisions
 - Securities transactions
 - Communications with the custodian bank
 - Procedure manuals
 - Reporting by business functions
 - Records of internal audit reviews

- Specific records related to compliance work:
 - Register of complaints
 - Register of conflicts of interest and related party transactions
 - Register of instances of non-compliance and rectification action
 - Register of training
 - Files of monitoring by business functions and by the compliance team, and records of rectification action proposed and taken. This includes regular and ad hoc reports to compliance (see templates in part 2 of toolkit)
 - Files of compliance reports to the boards
 - Files of contracts and correspondence with service providers and agents
 - Files of correspondence with regulators
- Preparing regular and special reports for the Boards
 - Matters reported are ranked by significance
 - Continuing adequacy of compliance arrangements is considered at least annually, if there are no other apparent changes in the business, or in the regulatory or business environments
 - All instances of non-compliance are reported, even if rectified during the period. This allows the Boards to understand the operation and effectiveness of compliance arrangements

Risk management function

This function is made up of risk management professionals. The Head of Risk Management usually has a minimum of 5 years experience working in risk management in a financial service provider. Risk management professionals may have other expertise and qualifications, in disciplines such as law, commerce, audit, compliance or process design. Risk management professionals may previously have worked in other areas of the investment manager's business operations.

The risk management function assesses the likelihood and impact of adverse events that may cause damage to the investment manager's business. For example:

- Information technology failure may adversely affect the ability to deliver services, such as timely processing of subscriptions and redemptions or timely processing of securities transactions
- Failure to comply with financial requirements under the investment manager's licence, including capital requirements, may lead to loss of the licence

- Failure to value fund assets correctly, and price units correctly, will adversely affect investor wealth and may affect their confidence in the investment management business
- Failure to prevent fraud may cause significant financial loss to the business and to investors

Risk management professionals develops risk management arrangements by:

Meeting with managers and staff of business functions to identify and assess risks and find ways to manage them. This requires understanding:

- The likelihood that an adverse event will occur in particular circumstances
 - The size of the impact if an adverse event does occur
 - Who will be most affected if an adverse event occurs
 - Which risks are so significant that the likelihood or impact needs to be reduced
 - How likelihood or impact can be reduced
 - Who is responsible to take this action
- Developing and documenting risk management arrangements and delivering training so that staff know what they are required to do and how to do it
 - Reviewing circumstances and arrangements at least annually, to ensure that risk management arrangements continue to be adequate

Complaints management function

This function has a very strong customer service focus, and a good knowledge of other business functions. It ensures that:

- Unit holders can make complaints and have those complaints dealt with effectively and in a reasonable timeframe by the investment manager
- All staff who deal with investors know about the complaints management function, can advise investors about the timeframes for acknowledging and settling complaints, and can refer investors to staff in the complaints management function
- All complaints are recorded in the complaints register including:
 - Name, address and telephone number and other contact details of the complainant
 - Date and time the complaint was received, whether by email, letter or telephone
 - Staff member who received the complaint
 - The nature of the complaint
 - Staff member in charge of resolving the complaint
 - All correspondence about the complaint

- Information about how the complaint was resolved, and the time to resolve the complaint
- The register of complaints is reviewed to identify any large or systemic issues, and so identify business functions that would benefit from process improvement. This includes reporting about:
 - The number of complaints received
 - The services, products or business functions to which the majority of complaints relate
 - The time to acknowledge complaints – average and range
 - The time to solve complaints and advise clients of the outcome – average and range
 - The types of outcomes, and the number of each type
 - The types of action taken to rectify problems, and the number of each type

Internal audit team

This team undertakes detailed reviews of the efficiency and effectiveness of various aspects of the investment manager's operations, according to priorities established at a senior level of the investment manager. The work of this team generally includes:

- Confirming that particular policies and procedures are operating as expected, which may include consideration of compliance arrangements
- Focus on areas of significant or emerging risk, which may include risk of non-compliance, particularly for new products or services or for areas with a history of non-compliance

Any internal audit reports relating to compliance are copied to the Head of Compliance, and to the compliance committee (if that structure exists in the investment manager).

Legal counsel team

This team provides strategic and may provide operational legal advice to the Boards and other governance structures and to business functions within the investment manager. Some investment managers may outsource the legal advice function to a private law firm or legal consultant. In other investment managers, this team may also undertake the work of the compliance function (see description above). This team will often advise on related party transactions and managing conflicts of interest. For example regarding:

- Disclosure of, and approval mechanisms for related party benefits, in light of potential loss to unit holders
- Mechanisms to approve contracts with related parties, in light of potential loss to unit holders

A register of related party transactions and of conflicts of interest must be kept, and must be available for review by compliance professionals at all times.

Compliance committee

Where an investment manager decides to establish a compliance committee, it is generally established as a sub-committee of the Board of Directors, and performs some of the work of the Board described above in reviewing the operation and adequacy of compliance arrangements. However the Boards retain ultimate responsibility for the effectiveness of compliance arrangements.

Audit committee

Where an investment manager decides to establish an audit committee, it is generally established as a sub-committee of the Board of Directors, and performs some of the work of the Board in:

- Appointing external auditors to review financial statements
- Making decisions about the work of any internal audit team
- Receiving and considering reports from internal and external auditors

However the Boards retain ultimate responsibility for internal and external audit.

Organisation charts and compliance reporting structure

Compliance professionals must be able to report directly to the Board of Directors and to the Board of Commissioners.

Examples of organisation charts, showing reporting lines, are provided in Part 2 of the Toolkit, for investment managers with different governance structures.

Format for reporting to the Board of Directors

A standard format assists the Board to compare the compliance position from meeting to meeting, and also assists compliance professionals to prepare the report and associated materials for Board consideration. Of course, any report format needs to be reviewed from time to time, in light of the types of matters being reported, to ensure all significant matters are being drawn to the attention of the Board.

An example of a format for reporting to the Board is provided in Part 2 of the Toolkit. This may also be used for reporting to the Board of Commissioners, where required.

Two examples of reports to the Board are provided below regarding the same compliance issues. Consider the strengths of these approaches for reporting, and how they might be improved.

EXAMPLE 1 - COMPLIANCE MONTHLY REPORT TO THE BOARD OF DIRECTORS

1. Strategic matters

- Existing complaints management procedures for unit holders are being reviewed in light of new regulatory requirements for licensed investment managers.
- Repeated instances of non-compliance in the dealing function, resulting in loss for the investment manager, were identified by the internal audit team. Rectification action has been taken.
- New recruitment procedures have been implemented to:
 - Increase focus on reference checks from prior employers
 - Improve induction so new staff have better understanding of the linkages between functions within the investment manager and between functions of the manager and the custodian bank
- There was one breach of capital requirements during three days. This was reported to the regulator. The requirement is now being met. Upgraded monitoring procedures are in place.

2. Adequacy of compliance arrangements: Effects of regulatory change

The new licensing rule requirement for a complaints management system is being assessed against current dispute resolution procedures within the investment manager.

Recommendations will be made by next month regarding any enhancements required to existing procedures. Options being considered include delivery of training to a wider group of staff regarding operation of the complaints management system.

3. Adequacy of compliance arrangements: Effects of business change

The global financial crisis has increased investor interest in capital protected products.

The proposed design and issue of a capital protected product has included identification of additional compliance obligations and the preparation of associated new compliance arrangements. Details are provided in the attachment.

4. Instances of non-compliance and rectification action

FUNCTION	NUMBER OF INSTANCES	NATURE OF NON-COMPLIANCE <i>Refer to attached reports for details</i>	RECTIFICATION ACTION
Investment	8	Insufficient documentation of reasons for investment decisions	Training for new staff and increased monitoring for the next month
	3	Investment outside mandate	Currently rebalancing portfolio. Monitoring will increase in frequency and focus on communications between the investment manager and the custodian bank
Risk management	0	-	-
Compliance	1	Delay in receiving information about the related party transaction on 25 th of last month led to difficulty in monitoring action during the transaction Detailed reviews of two business functions during the period found no compliance issues other than those reported here.	Streamlined information flow procedures are now in place. Review of the transaction after the event indicate that no issues arose in that case. As noted at point 1, concerns about recruitment and induction noted in previous periods have now been addressed.
Marketing	23	Applications for subscription processed with incomplete information on application form. The information not provided did not cause loss to investors or to the investment manager	New checklist in place, training for new staff and increased monitoring for the next month
Dealing	57	Errors in amounts of transactions and delay in transactions, due to replacement staff and new staff, and lack of familiarity with new procedures. These errors led to losses, booked to the account of the investment manager.	Training for new and replacement staff and increased monitoring for the next month. This monitoring will continue until the new procedures are embedded in operational practice
Settlement	0	-	-
Complaints management	0	3 new complaints were received and were found to have no basis.	

		2 complex existing complaints were resolved and no compliance breaches were identified	As there was some delay with one matter, monitoring will increase for this function
Research and IT	0	-	-
Human resources	0	-	-
Accounting and finance	1	Non-compliance with capital requirements for three days.	Reported to regulator. Increased monitoring has been implemented.
Other	0	-	-

5. Recommendations for Board decision

Proposed capital protected product

It is recommended that the Board approve the proposed additional compliance arrangements. This will enable product development to move to the next stage.

Communications with managers and staff in functions

Instances of non-compliance were identified by all business functions except Dealing (where there were new and temporary staff, and the problem was identified by the Internal Audit team), and reported in a timely way to the Compliance team.

It is recommended that the Board congratulate the Heads of business functions at the forthcoming business planning meeting, to encourage continuation of this high standard of monitoring and detecting non-compliance.

EXAMPLE 2 – COMPLIANCE MONTHLY REPORT TO THE BOARD OF DIRECTORS

1. Strategic matters

Refer to attached reports for more detail

- Review of existing complaints management function
- Repeated non-compliance in the dealing function resulting in losses for the investment manager
- New recruitment processes implemented to improve reference checks and induction training
- Breach of capital requirements for three days

2. Adequacy of compliance arrangements: Effects of regulatory change

Refer to attached reports for more detail

Existing dispute resolution procedures are being evaluated in light of requirement for complaints management function in new licensing rule. Recommendations will be made next month.

3. Adequacy of compliance arrangements: Effects of business change

Refer to attached reports for more detail

Recommendations for implementation of new compliance arrangements for proposed capital protected product have been developed and are submitted in this report for Board consideration.

4. Instances of non-compliance and rectification action

Refer to attached reports for more detail

Investment – insufficient documentation for investment decisions (8) and investment outside mandate (3)

Compliance – delay in receiving information about related party transaction (1)

Marketing – applications for subscription processed with incomplete information (23)

Dealing – errors in amounts of transactions and delays in transactions (57)

Accounting and finance – non-compliance with capital requirements for three days (1)

5. Recommendations for Board decision

Refer to attached recommendations for more detail

1. It is recommended that the Board approve the proposed additional compliance arrangements to enable the issue of capital protected products
2. It is recommended that the Board congratulate Heads of business functions regarding effective monitoring and reporting at the forthcoming business planning meeting, to encourage an ongoing high standard of monitoring and detecting non-compliance

5. MONITORING COMPLIANCE

Reasons for monitoring

As noted above, the Boards are ultimately responsible for the governance of the investment manager, including the effectiveness of compliance arrangements. The ability to demonstrate compliance with all relevant regulatory requirements is essential for an investment manager to hold its licence, and so continue to operate its business.

Effectiveness of compliance arrangements is usually checked, and any problems identified, in three ways:

1. Formal monitoring and periodic reporting. (Refer to the report format in Part 2 of the Toolkit.)

As discussed earlier, business functions are generally entirely responsible for monitoring use of operating procedures, and generally share responsibility with compliance professionals for monitoring use of compliance procedures.

It is often easy for the Head of a business function to check the use of compliance procedures while reviewing the use of operating procedures. The Head of the business function then reports periodically about use of compliance procedures to the Head of Compliance.

However there are times, for example when a high level of objectivity is required in a complex matter, when it is appropriate for compliance professionals to take responsibility for monitoring.

Responsibility for monitoring is better shared amongst a number of people. If one person were to be responsible for all monitoring, it is unlikely that person would have sufficient experience and understanding of some aspects of the business to be able to monitor effectively. Nor would that person have sufficient time. Experience shows that sharing responsibility for monitoring increases the likelihood that monitoring will be done effectively.

2. Ad hoc reporting of problems as they are identified. Such reports to the Head of Compliance may be prepared by any person working in the investment manager. (Refer to the format in Part 2 of the Toolkit.)
3. Information prepared by other governance structures during their work, where that work has consequences for compliance.

In all of these cases, the underlying principle is that failure to report non-compliance is a serious matter, as it prevents rectification of problems that might damage the business.

Some investment managers adopt a 'no blame' policy for non-compliance, unless fraud is involved, but impose significant penalties if non-compliance is not reported.

Record-keeping and documentation

In all cases, records of monitoring action must be kept, with records of findings and any rectification action. It is not sufficient to monitor and take action, although that is important. An investment manager must also be able to demonstrate, by the records it prepares and keeps, that it has undertaken monitoring and addressed any issues arising.

Such documentation can be brief, but must include:

- name and position of the person responsible
- date of monitoring
- reason for monitoring, and how this work fits into the overall program of monitoring
- brief description of monitoring work undertaken
- findings
- rectification action, if any, and date of that action

When monitoring is undertaken in business functions, records may be kept by business functions, but copies must be provided to the Head of Compliance. On the other hand, when compliance professionals undertake monitoring, they must provide copies of relevant information to the Heads of business functions or other governance units.

Monitoring mechanisms

The nature and complexity of a business function affects the nature and frequency of monitoring. Also, as there is a cost in monitoring, actions monitored must be significant for the business.

- Monitoring may be built into information technology systems (for example in data processing or workflow systems). If so, it is important to test such systems from time to time to ensure they operate effectively and report non-compliance appropriately.
- Day-to-day monitoring may include sign-offs and reconciliations.
- Monitoring may often include speaking with managers and staff, and reviewing documents and the performance of actions in business functions.

Examples of monitoring mechanisms used in compliance arrangements

The following examples may assist compliance professionals when developing the monitoring section of compliance arrangements.

- The work area conducts monthly self-assessment, and reports within 5 days of the end of month to the Head of Compliance. This self-assessment is reviewed on an ad hoc basis by compliance professionals (or by the internal audit team, or by external auditors) every 6 months.
- The Head of Compliance maintains a register of all action notified by the business functions (or the Boards), and monitors progress every week until action is complete.
- Compliance professionals review a random sample of 10 files every month, to check for proper sign-offs and completeness.
- Compliance professionals review the monthly reconciliations of investment manager and custodian bank records of subscriptions and redemptions every two months.
- Each application is checked by the administrator on receipt. For two months, compliance professionals review a sample of 5 applications every fortnight
- The due diligence committee reviews all new offer documents and ensures those documents have been subject to the procedures approved by the board. Compliance professionals review promotional material annually, including records of sign-off and due diligence.

Examples of rectification action when problems have been found

Many types of non-compliance can be fixed by relatively straightforward action, such as:

- Modifying operational or compliance procedures, to increase clarity or to require different action
- Training, so that managers and staff understand what is required and how to do it
- Modifying or developing new monitoring programs
- Attention to record-keeping
- Improving recruitment practice – staff selection, and induction to the organisation
- Keeping up-to-date, particularly for reconciliations and preparing financial information
- Separation of duties, limiting access and other action to reduce the potential for fraud

Exercise – assess the adequacy of monitoring mechanisms

In the example below, what is your assessment of the adequacy of monitoring mechanisms?

- Are the most significant issues being monitored?
- Is the person responsible the appropriate person? (For example, is it appropriate to make the custodian responsible for compliance in the investment manager?)
- Is the timing appropriate?

How might monitoring be improved? Compare your response with the proposal for this issue in the compliance arrangements in Part 2 of the Toolkit.

EXAMPLE FOR EXERCISE - FUND ADMINISTRATION & ACCOUNTING: PREPARING ANNUAL AND MONTHLY FINANCIAL INFORMATION

SOURCE	COMPLIANCE OBLIGATION	OPERATING AND COMPLIANCE PROCEDURES, INCLUDING MONITORING	TIMING	RESPONSIBILITY
Point 31 and 32 Rule IV.B.1	The annual financial statement of an investment fund must be audited by an accountant registered with Bapepam-LK and must be submitted by the investment manager to Bapepam-LK no later than the end of the third month after the end of the fiscal year.	The investment manager: <ul style="list-style-type: none"> Prepares monthly management accounts and annual financial statements for the fund, based on the chart of accounts and relevant accounting standards Provides the auditors with access to information to audit the fund's financial statements. 	Monthly	Chief Accountant
Point 1 (h), (l) and (p) and 3 (k) and (l), 5 (b), (f), 8 and 9, Rule IV.B.2	The annual financial statement must be submitted to unit holders	The auditor prepares the audit report for the fund based on relevant auditing standards.	Annually or more frequently if required by the auditors	Chief Accountant, in discussion with audit committee
Rule X.D.1	Unit holders receive a monthly statement of unit holder position. The	The investment manager and custodian bank compile and check data for individual unit holders Refer to Accounting and Finance Procedures SS to VV: <ul style="list-style-type: none"> Preparation of monthly management accounts Preparation of monthly unit holder statements Application of accounting standards in annual financial statements Working with registered auditors Refer to Marketing Procedures XX to ZZ and DD to FF: <ul style="list-style-type: none"> Distribution of monthly and annual reports to unit holders 	Monthly	Custodian

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	investment manager and the custodian bank must ensure the completeness and accuracy of this report	<ul style="list-style-type: none">• Annual review and submission of revised prospectus with financial statements.		
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Exercise – Reports to the Head of Compliance

For the 3 examples in this exercise prepare a report for the Head of Compliance. Which report format is suitable? Examples are provided in this section for your use. What materials would need to be attached to the report in each case?

Example 1 – Dealing: securities transactions

In the last few months experienced dealing staff have retired, and in the short term have been replaced by new staff, and by temporary staff from other business functions. Not all operating procedures were up to date and complete at the time experienced staff retired. Due to unfamiliarity with the work and uncertainty about procedures, there have been 57 errors in dealing, regarding timing and amount of transactions, during the last month. **An internal audit review detected these errors.**

There were losses to unit holders in two funds, arising from errors (delays in transacting) in the amount of Rp 123,000,000. These losses have been booked to the account of the investment manager.

Training has been increased, employing one of the retired staff for 1 month to train and supervise the work, and to update procedure manuals. In the longer term a computerised system should be implemented to reduce the amount of manual handling.

Example 2 – Applications for subscription

23 applications for subscriptions were processed with incomplete information during the last month, regarding investment in 11 funds, due to lack of new staff familiarity with procedures. The expansion of the business and hiring of new staff to deal with the increase in business, has illustrated some deficiencies in induction training and business function training.

These errors were identified during an ad hoc review by the compliance team. This review was undertaken in light of the number of new staff in the team. Neither unit holders nor the investment manager sustained losses from these errors, however there is a risk of loss which must be managed. Induction training is being improved, and specific business function training is being undertaken for all new staff. Detailed monitoring will continue for another month.

Example 3 – investment outside mandate

Regular fortnightly review of portfolio investments by the Head of Investment found investment outside mandate on three occasions. This was due to lack of reconciliation in the records of the investment manager and the custodian bank, as one staff member was on leave. This was reported to the Head of Compliance. Revised procedures are being implemented to ensure reconciliations take place for each fund as required, and any discrepancies are addressed immediately. As the investments in one fund were significantly different from mandate, the Head of Compliance discussed this matter with the regulator. There will be increased attention to monitoring by the Head of Investment over the next two months to ensure this issue is appropriately managed.

PERIODIC REPORT FROM HEAD OF BUSINESS FUNCTION TO HEAD OF COMPLIANCE

Name and position title: Head of

.....

Compliance arrangement reference numbers:

.....

Reporting period: From.....

To.....

I confirm that the procedures described in the compliance arrangements identified above have been complied with and:

- (i) All instances of non-compliance have been notified to the Head of Compliance. Copies of all notifications for the period are attached to this statement.
- (ii) I am not aware of any potential non-compliance that has not already been notified to the Head of Compliance.
- (iii) Any changes in procedures and monitoring have been agreed with the Head of Compliance.
- (iv) I am not aware of any matter that may need to be disclosed to unit holders or that may cause unit holders to be disadvantaged that has not already been addressed.
- (v) Records exist to demonstrate the statements made in this report.

Signature and date:

.....

PERIODIC REPORT FROM HEAD OF BUSINESS FUNCTION TO HEAD OF COMPLIANCE

Name and position title: Head of

.....

Compliance arrangement reference numbers:

.....

Reporting period: From.....

To.....

I confirm that the procedures described in the compliance arrangements identified above have been complied with and:

- (i) All instances of non-compliance have been notified to the Head of Compliance. Copies of all notifications for the period are attached to this statement.
- (ii) I am not aware of any potential non-compliance that has not already been notified to the Head of Compliance.
- (iii) Any changes in procedures and monitoring have been agreed with the Head of Compliance.
- (iv) I am not aware of any matter that may need to be disclosed to unit holders or that may cause unit holders to be disadvantaged that has not already been addressed.
- (v) Records exist to demonstrate the statements made in this report.

Signature and date:

.....

PERIODIC REPORT FROM HEAD OF BUSINESS FUNCTION TO HEAD OF COMPLIANCE

Name and position title: Head of

.....

Compliance arrangement reference numbers:

.....

Reporting period: From.....

To.....

- (i) I confirm that the procedures described in the compliance arrangements identified above have been complied with and:
- (ii) All instances of non-compliance have been notified to the Head of Compliance. Copies of all notifications for the period are attached to this statement.
- (iii) I am not aware of any potential non-compliance that has not already been notified to the Head of Compliance.
- (iv) Any changes in procedures and monitoring have been agreed with the Head of Compliance.
- (v) I am not aware of any matter that may need to be disclosed to unit holders or that may cause unit holders to be disadvantaged that has not already been addressed.
- (vi) Records exist to demonstrate the statements made in this report.

Signature and date:

.....

AD HOC REPORT OF NON-COMPLIANCE TO HEAD OF COMPLIANCE

Name and position title of person making report:
.....

Telephone number and business function:
.....

Compliance arrangement reference number(s):
.....

Date of report:
.....

Date when non-compliance was detected:
.....

Duration of non-compliance:
.....

Nature of non-compliance:
.....
.....
.....
.....
.....

Is this considered an isolated incident or part of a systemic problem?
.....

Estimate the likely impact of this non-compliance:

Numbers of unit holders affected and costs to unit holders
.....

Costs and risks for investment manager
.....

What rectification action has already been taken, or can be taken to minimise the impact of this non-compliance? Comment on timing and costs for rectification, if possible, and identify the position best placed to be responsible for rectification.

.....
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.....
.....
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Signature and date:

.....

AD HOC REPORT OF NON-COMPLIANCE TO HEAD OF COMPLIANCE

Name and position title of person making report:
.....

Telephone number and business function:
.....

Compliance arrangement reference number(s):
.....

Date of report:
.....

Date when non-compliance was detected:
.....

Duration of non-compliance:
.....

Nature of non-compliance:
.....
.....
.....
.....
.....

Is this considered an isolated incident or part of a systemic problem?
.....

Estimate the likely impact of this non-compliance:

- Numbers of unit holders affected and costs to unit holders
.....
- Costs and risks for investment manager
.....

What rectification action has already been taken, or can be taken to minimise the impact of this non-compliance? Comment on timing and costs for rectification, if possible, and identify the position best placed to be responsible for rectification.

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Signature and date:

.....

AD HOC REPORT OF NON-COMPLIANCE TO HEAD OF COMPLIANCE

Name and position title of person making report:

.....

Telephone number and business function:

.....

Compliance arrangement reference number(s):

.....

Date of report:

.....

Date when non-compliance was detected:

.....

Duration of non-compliance:

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Nature of non-compliance:

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Is this considered an isolated incident or part of a systemic problem?

.....

Estimate the likely impact of this non-compliance:

- Numbers of unit holders affected and costs to unit holders

.....

- Costs and risks for investment manager

.....

What rectification action has already been taken, or can be taken to minimise the impact of this non-compliance? Comment on timing and costs for rectification, if possible, and identify the position best placed to be responsible for rectification.

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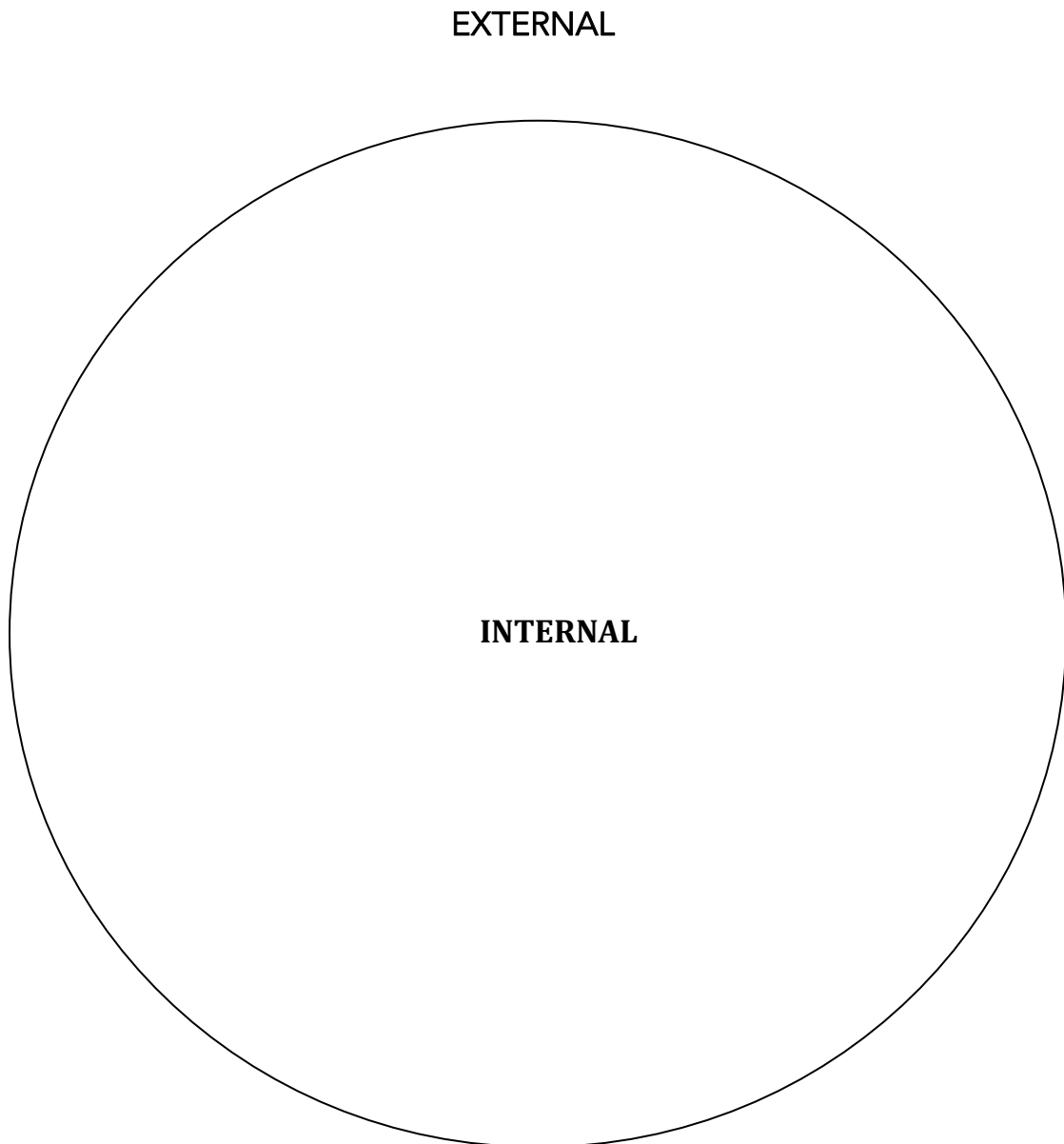
Signature and date:

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6. WORKING WITH KEY STAKEHOLDERS

Exercise 1 - Who are your key stakeholders as a compliance professional?

Write on this diagram your key stakeholders, both internal and external to the organisation. Are they all equally important to your work in compliance? For example, are Heads of all business functions equally important? Why or why not? Who are your key external stakeholders?



Exercise 2 - What do these stakeholders think about compliance professionals

From your diagram above, choose up to ten important stakeholders and list them here. Under each stakeholder write what they think about the compliance function. Do they know the compliance function exists? If so, what do they feel they receive from compliance professionals? What do they want?

1. _____

2. _____

3. _____

4. _____

5. _____

6. _____

7. _____

8. _____

9. _____

10. _____

Exercise 3 - How can you work effectively with these stakeholders?

Which of these stakeholders would value your efforts in, for example:

1. contributing to process efficiency
2. providing updates to staff at team meetings
3. delivering training to assist staff work more effectively
4. providing ad hoc compliance advice on request
5. providing assurance that compliance arrangements are comprehensive
6. designing and implementing monitoring programs
7. liaising with the regulator

1. _____

2. _____

3. _____

4. _____

5. _____

6. _____

7. _____

8. _____

9. _____

10. _____

PART 2 – EXAMPLES

1. EXAMPLE OF MAPPING COMPLIANCE OBLIGATIONS

Before you can map compliance obligations you need to have a clear understanding of the organisation structures and business functions of the investment manager

Examples of mapping are based on Bapepam-LK rules IV.B.1 and IV.B.2, and those parts of Chapters IV and V of Capital Markets Law Number 8 Year 1995 relevant for investment managers offering funds based on collective investment contracts. Business functions are those described in Bapepam-LK rule V.D.11.

OBLIGATION	SOURCE OF OBLIGATION	OPERATIONAL ACTIVITY	BUSINESS FUNCTION <i>The business function which manages this activity</i>
The custodian bank must calculate and announce the net asset value of each fund each exchange day.	Point 1 and Point 8 (b) 2), Rule IV.B.1 Rule IV.C.3 Point 1 (i) and (d) and 4(d), Rule IV.B.2 Item 3, Article 25, Section 2, Chapter IV, Capital Markets Law	Custody Working with media	Accounting and finance Marketing

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<p>An investment manager may sell or redeem participation units through investment fund selling agents authorised by the fund manager</p>	<p>Point 2, Rule IV.B.1 Point 1 (m), Rule IV.B.2</p>	<p>Working with selling agents Redemption and subscription</p>	<p>Marketing Accounting and finance</p>
<p>After notifying Bapepam-LK in writing with a carbon copy to the custodian bank, an investment manager may refuse investor redemption instructions or instruct the representatives of authorised selling agents to refuse investor redemption instructions in the following circumstances:</p> <ul style="list-style-type: none"> (a) The securities exchange where most of the securities in the fund's portfolio are traded is closed (b) Trading in most of the securities in the fund's portfolio is suspended (c) There is another emergency (d) Other circumstances as stipulated in the investment management contract, after obtaining the approval of Bapepam-lk 	<p>Point 3, Rule IV.B.1 Point 1 (f) and (m), Rule IV.B.2</p>	<p>Redemption and subscription Report to regulator</p>	<p>Accounting and finance Compliance</p>
<p>A custodian bank cannot issue new units during a period when redemption is refused.</p>	<p>Point 4, Rule IV.B.1 Point 1 (i) and (m) and 4 (k), Rule IV.B.2</p>	<p>Redemption and subscription</p>	<p>Accounting and finance</p>
<p>Where action is taken as described in point 3 of Rule IV.B.1, an investment manager must notify unit holders in writing no later than one exchange day after the date of receiving a redemption instruction.</p>	<p>Point 5, Rule IV.B.1 Point 1 (h) and (m) and 3 (e) and (f), Rule IV.B.2</p>	<p>Redemption and subscription</p>	<p>Accounting and finance</p>
<p>An investment manager or authorised selling agent must refuse a subscription instruction from a subscriber if there is any indication of violation of Bapepam-LK Rule V.D.10 regarding 'know your client' requirements.</p>	<p>Point 6, Rule IV.B.1 Rule V.D.10 Point 1 (f) (h) and 3 (e) and (f), Rule IV.B.2</p>	<p>Anti-money laundering Redemption and subscription</p>	<p>Marketing Accounting and finance</p>

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<p>An investment manager must perform its duties in good faith and with full responsibility for the interests of the investment fund. If an investment manager does not do so, it is responsible for any damage caused by its negligence.</p>	<p>Point 7, Rule IV.B.1 Point 1 (h), Rule IV.B.2</p>	<p>Managing conflicts of interest Avoiding negligence</p>	<p>Compliance Risk management</p>
<p>A collective investment contract between the investment manager and the custodian bank, and which binds unit holders, must specify the rights and responsibilities of all persons participating in the contract.</p>	<p>Point 8, Rule IV.B.1 Point 1 (h), (i) and (l) and 4 (c), Rule IV.B.2</p>	<p>Writing collective investment contract</p>	<p>Accounting and finance</p>
<p>An investment manager must manage the investment fund portfolio in accordance with the investment policy stated in the contract and prospectus and comply with the investment policy no later than one year after the registration statement is declared effective</p>	<p>Point 8 (a) 1), Rule IV.B.1 Point 1 (h) and 3 (i), Rule IV.B.2</p>	<p>Investment</p>	<p>Investment</p>
<p>An investment manager must arrange and confirm transfer of money received from subscribers to the custodian bank no later than the end of the working day after receipt.</p>	<p>Point 8 (a) 2), Rule IV.B.1 Point 1 (h) and (m) and 3(e) and (f), Rule IV.B.2</p>	<p>Redemption and subscription</p>	<p>Accounting and finance</p>
<p>An Investment manager must redeem units as instructed by investors</p>	<p>Point 8 (a) 3), Rule IV.B.1 Point 1 (h) and (m) and 3 (e), (f) and (j), Rule IV.B.2</p>	<p>Redemption and subscription</p>	<p>Accounting and finance</p>
<p>An investment manager must keep all assets of an investment fund in the custodian bank</p>	<p>Point 8 (a) 4), Rule IV.B.1 Point 1 (h), Rule IV.B.2 Item 1 Article 25, Section 2, Chapter IV, Capital Market Law</p>	<p>Custody</p>	<p>Accounting and finance</p>

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<p>An investment manager must keep books, notes and records for each fund, relating to the financial statements and management of a fund, as required under Bapepam-LK rules, and keep those books, notes and records separate from the books, notes and records of the investment manager, security company functions and other clients of the investment manager</p>	<p>Point 8 (a) 5), Rule IV.B.1 Point 1 (h) and 3(a), Rule IV.B.2</p>	<p>Accounting and finance</p>	<p>Accounting and finance</p>
<p>An investment manager must notify the custodian bank in writing of any change of an investment manager's directors, commissioners and substantial shareholders</p>	<p>Point 8 (a) 6), Rule IV.B.1 Point 1 (h), Rule IV.B.2</p>	<p>Notify changes in key staff</p>	<p>Human resources</p>
<p>An investment manager must submit to Bapepam-LK, announce to unit holders in Indonesian newspapers with national circulation, and provide information to unit holders about any plan to change a collective investment contract or investment fund prospectus.</p>	<p>Point 8 (a) 7), Rule IV.B.1 Point 1 (h), Rule IV.B.2</p>	<p>Writing collective investment contract Writing prospectus Working with media Report to regulator</p>	<p>Accounting and finance Marketing Compliance</p>
<p>A custodian bank must provide a collective custodian service for an investment fund</p>	<p>Point 8 (b) 1), Rule IV.B.1 Point 1 (i) and 4 (m), Rule IV.B.2</p>	<p>Custody</p>	<p>Accounting and finance</p>
<p>A custodian bank must pay expenses relating to an investment fund, at the request of the investment manager</p>	<p>Point 8 (b) 3), Rule IV.B.1 Point 1 (i) and 4 (g), Rule IV.B.2</p>	<p>Payment of fees and expenses</p>	<p>Accounting and finance</p>
<p>A custodian bank must keep separate records showing changes in the number of units, the number of units owned by each unit holder, and the name, citizenship, addresses and other information identifying unit holders.</p>	<p>Point 8 (b) 4), Rule IV.B.1 Point 1 (i) and 4(i), Rule IV.B.2</p>	<p>Unit holder record-keeping</p>	<p>Accounting and finance</p>

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<p>A custodian bank must organise redemptions including payments, keep records, and take other actions as specified in the collective investment contract</p>	<p>Point 8 (b) 5), Rule IV.B.1 Point 1 (i) and (m) and 4 (a), (h) and (k), Rule IV.B.2</p>	<p>Redemption and subscription Accounting and finance</p>	<p>Accounting and finance</p>
<p>A custodian bank must ensure that participation units are issued only after payment has been received from subscribers</p>	<p>Point 8 (b) 6), Rule IV.B.1 Point 1 (i) and (m) and 4 (j) and (k), Rule IV.B.2</p>	<p>Redemption and subscription</p>	<p>Accounting and finance</p>
<p>A custodian bank must send a confirmation letter to a unit holder regarding his/her instructions no later than seven exchange days after receiving an instruction.</p>	<p>Point 8 (b) 7), Rule IV.B.1 Point 1 (i) and (m), Rule IV.B.2</p>	<p>Redemption and subscription</p>	<p>Accounting and finance</p>
<p>A custodian bank must refuse any instruction from the investment manager, in writing with a carbon copy to Bapepam-LK, if that instruction violates capital market regulations or the collective investment contract</p>	<p>Point 8 (b) 8), Rule IV.B.1 Point 1 (i), and 4 (o) Rule IV.B.2</p>	<p>Custody Investment Redemption and subscription Report to regulator</p>	<p>Accounting and finance Investment Accounting and finance Compliance</p>
<p>A custodian bank must register the assets of the investment fund in the name of the custodian bank in the interests of unit holders as required in capital market regulations, and take all necessary steps to properly register the assets</p>	<p>Point 8 (b) 9), Rule IV.B.1 Point 1 (i) and 4 (l), Rule IV.B.2</p>	<p>Custody</p>	<p>Accounting and finance</p>

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<p>A custodian bank must pay, or receive payment, for securities bought or sold by the investment manager as part of the fund portfolio</p>	<p>Point 8 (b) 10), Rule IV.B.1 Point 1 (i) and 4 (f), Rule IV.B.2</p>	<p>Custody</p>	<p>Accounting and finance</p>
<p>A custodian bank must operate as a custodian bank for an investment fund until an alternative custodian bank is appointed</p>	<p>Point 8 (b) 11), Rule IV.B.1 Point 1 (i), Rule IV.B.2</p>	<p>Custody</p>	<p>Accounting and finance</p>
<p>A custodian bank must notify the investment manager in writing about any change of directors, commissioners and substantial shareholders in the custodian bank</p>	<p>Point 8 (b) 12), Rule IV.B.1 Point 1 (i), Rule IV.B.2</p>	<p>Custody</p>	<p>Accounting and finance</p>
<p>A custodian bank must notify the investment manager in writing about any change in the person in the custodian bank responsible for the portfolio of an investment fund</p>	<p>Point 8 (b) 13), Rule IV.B.1 Point 1 (i), Rule IV.B.2</p>	<p>Custody</p>	<p>Accounting and finance</p>
<p>A custodian bank must, if requested by the investment manager, provide to the investment manager data or information about performance of the obligations of the custodian bank regarding the investment fund</p>	<p>Point 8 (b) 14), Rule IV.B.1 Point 1 (i) and 4 (a), (e), (i) and (n), Rule IV.B.2</p>	<p>Custody</p>	<p>Accounting and finance</p>
<p>Expenses paid by the fund manager include:</p> <ol style="list-style-type: none"> 1) Pre-operating expenses 2) Administration expenses 3) Marketing expenses 4) Printing expenses 5) Expenses for the preliminary distribution of a prospectus 	<p>Point 9 (a), Rule IV.B.1 Point 1 (d) and (h) and 4 (g), Rule IV.B.2</p>	<p>Payment of fees and expenses</p>	<p>Accounting and finance</p>

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<p>Expenses paid by the investment fund are:</p> <ol style="list-style-type: none"> 1) Fee to investment manager 2) Fee to custodian bank 3) Insurance expense, if any 4) Transaction fees 5) Prospectus renewal and distribution expenses 6) Auditor fees for audit of the annual financial statement after a registration statement becomes effective 7) Other expenses stipulated in the contract 	<p>Point 9 (b), Rule IV.B.1</p> <p>Point 1 (d), and 4 (g) Rule IV.B.2</p>	<p>Payment of fees and expenses</p>	<p>Accounting and finance</p>
<p>Expenses paid by the unit holder are:</p> <ol style="list-style-type: none"> 1) Subscription fees, if any 2) Redemption fees, if any 3) Switching fees, if any 4) Taxes, if any 	<p>Point 9 (c), Rule IV.B.1</p> <p>Point 1 (d) and 4 (g), Rule IV.B.2</p>	<p>Payment of fees and expenses</p>	<p>Accounting and finance</p>
<p>Fees paid to legal consultants, notaries or public accountants after the registration statement is effective are paid by the investment manager, the custodian bank or the investment fund depending on who receives the benefits of those services or who is responsible for the negligence leading to the need for those services</p>	<p>Point 9 (d), Rule IV.B.1</p> <p>Point 1 (h) and (i) and 4 (g), Rule IV.B.2</p>	<p>Payment of fees and expenses</p>	<p>Accounting and finance</p>
<p>A contract authorising a selling agent to sell units in investment funds on behalf of an investment manager (see point 2 above in Rule IV.B.1) and signed after the registration statement becomes effective, must be lodged with Bapepam-LK within two days of signing the contract</p>	<p>Point 10, Rule IV.B.1</p>	<p>Working with selling agents</p> <p>Report to regulator</p>	<p>Marketing</p> <p>Compliance</p>

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<p>An investment manager or a selling agent must ensure that a prospective investor has read the investment fund prospectus before buying units in the fund</p>	<p>Point 11, Rule IV.B.1 Point 1 (h), Rule IV.B.2</p>	<p>Working with investors</p>	<p>Marketing</p>
<p>An investment manager may establish a procedure to buy or sell units in an investment fund</p>	<p>Point 12, Rule IV.B.1 Point 1 (m) and 3(e) and (f), Rule IV.B.2</p>	<p>Redemption and subscription</p>	<p>Accounting and finance</p>
<p>An investment manager must not be affiliated with a custodian bank</p>	<p>Point 13, Rule IV.B.1 Point 1 (g), Rule IV.B.2 Item 2, Article 25, Section 2, Chapter IV, Capital Market Law</p>	<p>Managing conflicts of interest</p>	<p>Compliance</p>
<p>The investment manager is prohibited from causing a fund in the form of a collective investment contract for which a registration statement has become effective to:</p> <p>(a) Invest in securities traded on a foreign exchange regarding which information is not available through mass media or the internet</p> <p>(b) Invest in securities traded on a foreign stock exchange regarding which information is available through mass media or the internet where those securities have a value of more than 15% of the net asset value of the investment fund, except where those securities are issued by the Indonesian government or by issuers including public companies regulated under Indonesian capital markets law</p> <p>(c) Invest in securities issued by one Indonesian entity or by one foreign entity where those securities are traded on a foreign stock exchange, where those securities have a value of</p>	<p>Point 14 (a) to (h) and (k) to (o) and (s) Rule IV.B.1 Point 1 (g) and 2, Rule IV.B.2 Items 1 and 2, Article 24, Section 2, Chapter IV, Capital Market Law</p>	<p>Investment Research</p>	<p>Investment Research and IT</p>

<p>more than 5% of the paid up capital of the issuer and where those securities have a value of more than 10% of the net asset value of the investment fund</p> <p>(d) Invest in shares of an issuer listed on the Indonesian stock exchange where those shares have a value of more than 5% of the paid up capital of the issuer</p> <p>(e) Invest in securities issued by any person with a value of more than 10% of the net asset value of the investment fund. This restriction applies to commercial paper issued by banks, but does not apply to Bank Indonesia certificates and bonds issued by the Government of the Republic of Indonesia or issued by an international monetary institution of which the Government of the Republic of Indonesia is a member</p> <p>(f) Arrange hedges for securities traded on foreign stock exchanges where the value of the hedge is greater than the value of those securities</p> <p>(g) Invest in asset-backed securities with a value of more than 10% of the net asset value of the investment fund. In addition, each type of asset-backed security must have a value of no more than 5% of the net asset value of the investment fund</p> <p>(h) Invest in securities not issued through a public offering or not listed on the Indonesian stock exchange, except securities with a rating from a credit rating agency, or money market securities, or securities issued by the Government of the Republic of Indonesia or by an international monetary institution of which the Government of the Republic of Indonesia is a member</p> <p>(k) Be involved in any activity other than securities investing, re-investing or trading</p> <p>(l) Be involved in any short selling transaction</p> <p>(m) Purchase any securities on margin</p> <p>(n) Issue bonds or credit securities</p> <p>(o) Be involved in any type of loan other than short term loans relating to the settlement of transactions. Such loans shall be no more than 10% of the value of the investment fund portfolio</p>			
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<p>(s) Invest in asset-backed securities not issued through a public offering and not rated by a credit rating agency.</p> <p>1. An investment fund may neither borrow nor lend money</p> <p>2. An investment fund may not acquire shares or participation units of another investment fund</p>			
<p>The investment manager is prohibited from causing a fund in the form of a collective investment contract for which a registration statement has become effective to:</p> <p>(i) Purchase securities issued by any person affiliated with the investment manager where those securities have a value of more than 20% of the net asset value of the investment fund, unless the affiliation is the result of government participation</p> <p>(j) Purchase securities issued by a unit holder or an affiliate of the unit holder based on an agreement between the investment manager, that unit holder or that affiliate of the unit holder</p> <p>(p) Purchase any securities underwritten by a securities company that is also the investment manager of the investment fund, or underwritten by an affiliate of the investment manager, unless such affiliation is a result of government participation</p> <p>(q) Enter any joint transaction or profit-sharing contract with the investment manager or its affiliates</p> <p>(r) Invest in asset-backed securities offered in a public offering if:</p> <p>1) The investment manager of the asset-backed securities is the same as the investment manager of the investment fund</p> <p>2) Those asset-backed securities are bought by affiliates of the investment manager</p> <p>3) The investment manager is affiliated with the initial creditor of the asset-backed securities</p>	<p>Point 14 (i), (j), (p), (q) and (r), Rule IV.B.1</p> <p>Point 1 (g) and 2, Rule IV.B.2</p>	<p>Investment</p> <p>Managing conflicts of interest</p> <p>Research</p>	<p>Investment</p> <p>Compliance</p> <p>Research and IT</p>

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<p>A custodian bank must notify Bapepam-LK in writing about any change in the person in the custodian bank responsible for the portfolio of an investment fund, no later than fourteen working days after the change.</p>	<p>Point 15, Rule IV.B.1 Point 1 (i), Rule IV.B.2</p>	<p>Custody Report to regulator</p>	<p>Accounting and finance Compliance</p>
<p>Where the portfolio composition of the investment fund does not meet the requirements of Point 14 (b), (c), (d), (e), (g), (l), and (o) in Rule IV.B.1, the custodian bank must send a letter of admonition to the investment manager and a carbon copy to Bapepam-LK no later than two working days after the change in portfolio composition occurred. In this case, the investment manager must adjust the composition of the portfolio of the investment fund no later than 10 days after the change in portfolio composition occurred.</p>	<p>Point 16, Rule IV.B.1 Point 1 (c) and (i), Rule IV.B.2</p>	<p>Investment Custody Report to regulator</p>	<p>Investment Accounting and finance Compliance</p>
<p>If the investment manager violates the investment policy for the investment fund, or the provisions of the collective investment contract, or capital market regulations, the custodian bank must send a letter of admonition to the investment manager and a carbon copy to Bapepam-LK no later than two working days after the violation is discovered.</p>	<p>Point 17, Rule IV.B.1 Point 1(g) and (i), Rule IV.B.2</p>	<p>Investment Custody Report to regulator</p>	<p>Investment Accounting and finance Compliance</p>
<p>An investment fund established under a collective investment contract must have funds under management of at least Rp 25 billion within 30 exchange days of the registration statement being made effective, except that capital protected, capital guaranteed and index funds may have Rp 25 billion in funds under management within 90 exchange days. If the required amount of funds under management has not been obtained within the specified time limit, the manager must wind up the fund.</p>	<p>Point 18 Rule IV.B.1 Point 1 (h) and (r) and 3(b) and 10, Rule IV.B.2</p>	<p>Liquidation Working with investors</p>	<p>Accounting and finance Marketing</p>
<p>Investment managers must report funds under management to Bapepam-LK and publish this information in a national newspaper with wide circulation no later than the required period in point 18 of Bapepam-LK Rule IV.B.1</p>	<p>Point 19, Rule IV.B.1 Point 1 (h), Rule IV.B.2</p>	<p>Working with media Report to regulator</p>	<p>Marketing Compliance</p>

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<p>The collective investment contract, and any amendment to that contract, must be authenticated by a public notary.</p>	<p>Point 21, Rule IV.B.1</p>	<p>Writing collective investment contract</p>	<p>Accounting and finance</p>
<p>A plan to change a collective investment contract or an investment fund prospectus must be submitted to Bapepam-LK and announced in an Indonesian newspaper with national circulation and available to unit holders, no later than fifteen working days before implementing the plan.</p>	<p>Point 22, Rule IV.B.1 Point 1 (h) and (i), Rule IV.B.2</p>	<p>Writing collective investment contract Writing prospectus Working with media Report to regulator</p>	<p>Accounting and finance Marketing Compliance</p>
<p>The change in a collective investment contract must be submitted to Bapepam-LK and announced in an Indonesian newspaper with national circulation and available to unit holders no later than two working days after the change has been implemented.</p>	<p>Point 23, Rule IV.B.1 Point 1 (h) and (i), Rule IV.B.2</p>	<p>Writing collective investment contract Working with media Report to regulator</p>	<p>Accounting and finance Marketing Compliance</p>
<p>An investment fund in the form of a collective investment contract can only buy or sell:</p> <ul style="list-style-type: none"> (a) Securities offered through a public offering or traded on the Indonesian or a foreign stock exchange (b) Debt securities such as commercial paper and asset-backed securities rated by a credit rating agency, government bonds, or debt securities issued by an international monetary institution of which the Government of the Republic of Indonesia is a member (c) Domestic money market securities with a maturity of less than one year, including Bank Indonesia certificates, money market certificates, certificates of deposit in Indonesian rupiah, or foreign currency (d) Domestic commercial paper, maturity of less than three years rated by a credit rating agency. 	<p>Point 24, Rule IV.B.1 Point 1(h) and (i), Rule IV.B.2</p>	<p>Investment Research Dealing Settlement</p>	<p>Investment Research and IT Dealing Accounting and finance</p>

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<p>Confirmation letter or proof of subscription instruction or redemption instruction must be sent to the unit holder no later than one working day after the instruction has been received if:</p> <ul style="list-style-type: none"> a) All payment and the subscription form have been received and are complete b) The redemption form has been received and is complete 	<p>Point 25, Rule IV.B.1 Point 1 (h) and (i) and 3(e) and (f), Rule IV.B.2</p>	<p>Redemption and subscription</p>	<p>Accounting and finance</p>
<p>The confirmation letter or other proof required in Point 25 of Bapepam-LK Rule IV.B.1 must be submitted in writing no later than seven exchange days after the unit holder instruction has been received.</p>	<p>Point 26, Rule IV.B.1 Point 1 (h) (m), Rule IV.B.2</p>	<p>Redemption and subscription</p>	<p>Accounting and finance</p>
<p>A subscription or redemption form received in complete form by the fund manager before 1.00pm West Indonesian time must be processed based on the net asset value of the investment fund stated at the end of that exchange day. A form received after 1.00pm West Indonesian time must be processed based on the net asset value of the investment fund at the end of the next exchange day.</p> <p>If an investment fund in the form of a collective investment contract is listed, other rules for subscription and redemption may apply, if stipulated in the collective investment contract and the prospectus of that investment fund.</p>	<p>Point 27, Rule IV.B.1 Point 1 (h) and (m) and 3(e) and (f) and 6, Rule IV.B.2</p>	<p>Redemption and subscription</p>	<p>Accounting and finance</p>
<p>Payment for redemption must be processed as soon as possible and no later than seven exchange days after the redemption date.</p>	<p>Point 28, Rule IV.B.1 Point 1 (h) and (m) and 3(e) and (f), Rule IV.B.2</p>	<p>Redemption and subscription</p>	<p>Accounting and finance</p>
<p>The initial net asset value of a unit in an investment fund must be Rp 1,000 or US\$1 or EUR 1 if the fund is denominated in those currencies.</p> <p>If an investment fund in the form of a collective investment contract is listed, other rules for initial value of a unit may apply, if stipulated in the collective investment contract and the prospectus of that investment fund.</p>	<p>Point 29, Rule IV.B.1 Point 1 (h) and (o) and 7, Rule IV.B.2</p>	<p>Valuation</p>	<p>Investment</p>

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<p>The fiscal year of an investment fund commences on 1 January and finishes on 31 December.</p>	<p>Point 30, Rule IV.B.1 Point 8, Rule IV.B.2</p>	<p>Financial statements</p>	<p>Accounting and finance</p>
<p>The annual financial statement of an investment fund must be audited by an accountant registered with Bapepam-LK and must be submitted by the investment manager to Bapepam-LK no later than the end of the third month after the end of the fiscal year.</p>	<p>Point 31, Rule IV.B.1 Point 1 (h) and (p) and 3 (k), and 9, Rule IV.B.2</p>	<p>Financial statements Report to regulator</p>	<p>Accounting and finance Compliance</p>
<p>A revised prospectus accompanied by the most recent annual financial statement must be published by the investment manager and submitted to Bapepam-LK no later than the end of the third month after the end of the fiscal year.</p>	<p>Point 32, Rule IV.B.1 Point 1 (h) and 3(l), Rule IV.B.2</p>	<p>Financial statements Writing prospectus Report to regulator</p>	<p>Accounting and finance Marketing Compliance</p>
<p>An investment fund in the form of a collective investment contract must be liquidated in any of the following circumstances:</p> <ul style="list-style-type: none"> (a) The fund has funds under management of less than Rp 25 billion within 30 exchange days of the registration statement being made effective, except that capital protected, capital guaranteed and index funds may have Rp 25 billion in funds under management within 90 exchange days. (b) Bapepam-LK orders liquidation based on capital market regulation (c) Net asset value of the fund is less than Rp 25 billion for 90 consecutive exchange days (d) The investment manager and the custodian have agreed to liquidate the fund. 	<p>Point 33, Rule IV.B.1 Point 1 (h) and (r) and 3(b), Rule IV.B.2</p>	<p>Liquidation</p>	<p>Accounting and finance</p>

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<p>Where a fund must be liquidated under Point 33 (a) of Bapepam-LK Rule IV.B.1, the investment manager must:</p> <ul style="list-style-type: none"> (a) Submit to Bapepam-LK a report of the reason for liquidation, and announce the plan of liquidation and distribution of proceeds to unit holders in at least one Indonesian newspaper with national circulation no later than two days after the circumstance has arisen. (b) Instruct the custodian bank to distribute the proceeds of liquidation, if net asset value has been calculated proportionately and is not less than the initial net asset value. Proceeds of liquidation must be received by unit holders within seven exchange days after the reason for liquidation has arisen. (c) Complete all liquidation procedures within ten exchange days after the reason for liquidation has arisen and submit to Bapepam-LK the report finalising the liquidation no later than ten exchange days after the liquidation. 	<p>Point 34, Rule IV.B.1</p> <p>Point 1 (h) and (r), 3(b) and 11, Rule IV.B.2</p>	<p>Liquidation</p> <p>Custody</p> <p>Working with the media</p> <p>Report to regulator</p>	<p>Accounting and finance</p> <p>Marketing</p> <p>Compliance</p>
<p>Where a fund must be liquidated under Point 33 (b) of Bapepam-LK Rule IV.B.1, the investment manager must:</p> <ul style="list-style-type: none"> (a) Announce the plan of liquidation and distribution of proceeds to unit holders in at least one Indonesian newspaper with national circulation no later than two days after the order is made by Bapepam-LK. On the day of the public announcement, the investment manager must notify the custodian bank to discontinue the calculation of net asset value (b) instruct the custodian bank to distribute the proceeds of liquidation, if net asset value has been calculated proportionately. Proceeds of liquidation must be received by unit holders within seven exchange days of the Bapepam-LK order to liquidate the fund. (c) Submit to Bapepam-LK the report finalising the liquidation no later than two months after the Bapepam-LK instruction to liquidate the fund, with opinions of the legal consultant and 	<p>Point 35, Rule IV.B.1</p> <p>Point 1 (h) and (r), 3(b) and 12, Rule IV.B.2</p>	<p>Liquidation</p> <p>Custody</p> <p>Working with media</p> <p>Report to regulator</p>	<p>Accounting and finance</p> <p>Marketing</p> <p>Compliance</p>

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<p>accountant and the investment fund need from the public notary.</p>			
<p>Where a fund must be liquidated under Point 33 (c) of Bapepam-LK Rule IV.B.1, the investment manager must:</p> <p>(a) Submit to Bapepam-LK a report of the reason for liquidation, including the most recent report of the investment fund's financial position, and announce the plan of liquidation and distribution of proceeds to unit holders in at least one Indonesian newspaper with national circulation no later than two days after the circumstance has arisen. On the day of the public announcement, the fund investment manager must notify the custodian bank to cease calculating net asset value.</p> <p>(b) Instruct the custodian bank to distribute the proceeds of liquidation, if net asset value has been calculated proportionately. Proceeds of liquidation must be received by unit holders within seven exchange days of completion of liquidation.</p> <p>(c) Submit to Bapepam-LK the report finalising the liquidation no later than two exchange months after the liquidation date, with opinions of the legal consultant and accountant and the investment fund need from the public notary.</p>	<p>Point 36, Rule IV.B.1</p> <p>Point 1 (h) and (r), 3(b) and 13, Rule IV.B.2</p>	<p>Liquidation</p> <p>Custody</p> <p>Working with media</p> <p>Report to regulator</p>	<p>Accounting and finance</p> <p>Marketing</p> <p>Compliance</p>
<p>Where a fund must be liquidated under Point 33 (d) of Bapepam-LK Rule IV.B.1, the investment manager must:</p> <p>(a) Submit to Bapepam-LK within two exchange days of the agreement between the investment manager and the custodian bank a report including the agreement to liquidate the fund, the reason for liquidation, and the most recent report of the investment fund's financial position. On the same day the report is submitted to Bapepam-LK the investment manager must announce the plan of liquidation and distribution of proceeds to unit holders in at least one Indonesian newspaper with national circulation and notify the custodian bank to cease calculating net asset value.</p>	<p>Point 37, Rule IV.B.1</p> <p>Point 1 (h) and (r), 3(b) and 14, Rule IV.B.2</p>	<p>Liquidation</p> <p>Custody</p> <p>Working with media</p> <p>Report to regulator</p>	<p>Accounting and finance</p> <p>Marketing</p> <p>Compliance</p>

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<p>(b) Instruct the custodian bank to distribute the proceeds of liquidation, if net asset value has been calculated proportionately. Proceeds of liquidation must be received by unit holders within seven exchange days of completion of liquidation.</p> <p>(c) Submit to Bapepam-LK the report finalising the liquidation no later than two months after the liquidation date, with opinions of the legal consultant and accountant and the investment fund need from the public notary.</p>			
<p>The investment manager must ensure the proceeds of the liquidation are proportionately distributed according to the units held by each unit holder</p>	<p>Point 38, Rule IV.B.1</p> <p>Point 1 (h) and (r), Rule IV.B.2</p>	<p>Liquidation</p> <p>Working with investors</p>	<p>Accounting and finance</p> <p>Marketing</p>
<p>After the announcement of the liquidation plan, unit holders cannot make redemptions from the investment fund.</p>	<p>Point 39, Rule IV.B.1</p> <p>Point 1 (h) and (r), Rule IV.B.2</p>	<p>Liquidation</p> <p>Working with investors</p>	<p>Accounting and finance</p> <p>Marketing</p>
<p>If there are proceeds of liquidation not collected by unit holders after the distribution date determined by the investment manager:</p> <p>(a) The custodian bank must notify the unit holder three times within two weeks and announce the availability of these proceeds in Indonesian newspapers with national circulation, and any remaining funds must be deposited in the custodian bank's demand deposit account on behalf of the unit holder for a period of thirty years.</p> <p>(b) All expenses incurred in relation to keeping these funds in the account will be charged to these funds</p> <p>(c) If within thirty years the unit holder has not collected the remaining funds, the funds must</p>	<p>Point 40, Rule IV.B.1</p> <p>Point 1 (i) and (r), and 15, Rule IV.B.2</p>	<p>Liquidation</p> <p>Custody</p> <p>Working with investors</p>	<p>Accounting and finance</p> <p>Marketing</p>

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The collective investment contract must require that the investment manager have procedures for terminating contracts	Point 1(h) and 3(b), Rule IV.B.2	Writing collective investment contract Managing contracts	Accounting and finance
The collective investment contract must require that the custodian bank have procedures for terminating contracts	Point 1(i) and 4(b), Rule IV.B.2	Writing collective investment contract Custody	Accounting and finance
The collective investment contract must require that an investment manager of a fund cannot be terminated before the appointment of a new fund manager.	Point 1(h) and 3(c) Rule IV.B.2	Writing collective investment contract Managing contracts	Accounting and finance
The collective investment contract must require that the assets of the investment fund be separated from the assets of the investment manager	Point 1(h) and 3(d), Rule IV.B.2	Writing collective investment contract Custody	Accounting and finance
The collective investment contract must require that the accounts of the investment fund be separated from the accounts of the custodian bank	Point 1(i) and 4(l), Rule IV.B.2	Writing collective investment contract Financial statements	Accounting and finance
The collective investment contract must require that, each day, the investment manager determines a fair market value for the assets in a fund portfolio and submit it immediately to the custodian bank	Point 1(h) and 3(g), Rule IV.B.2	Writing collective investment contract Valuation	Accounting and finance Investment
The collective investment contract must require that the investment manager replace the custodian bank if necessary.	Point 1(h) and 3 (h), Rule IV.B.2	Writing collective investment contract Managing contracts Custody	Accounting and finance
The collective investment contract must require that the custodian bank bear responsibility for any	Point 1 (i) and 4 (c), Rule IV.B.2	Writing collective investment contract	Accounting and finance

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loss resulting from its negligence		Avoiding negligence	Risk management
The collective investment contract must require that annual financial statement be submitted to unit holders	Point 1(h) and 3(k), Rule IV.B.2	Writing collective investment contract Financial statements Working with investors	Accounting and finance Marketing
The collective investment contract must require that the custodian bank record all changes in the fund portfolio, the number of participation units, expenses, management fees, dividends, interest, other revenue as required under Bapepam-LK regulations.	Point 1 (i) and 4 (e), Rule IV.B.2	Writing collective investment contract Unit holder record keeping Payment of fees and expenses Distributions	Accounting and finance
The collective investment contract must require that the custodian bank pay management fees and other expenses from the investment fund as required under the collective investment contract	Point 1 (i) and 4 (g), Rule IV.B.2	Writing collective investment contract Payment of fees and expenses	Accounting and finance
The collective investment contract must require that the custodian bank make payments to unit holders as required under the collective investment contract	Point 1 (i) and 4 (h), Rule IV.B.2	Writing collective investment contract Distributions	Accounting and finance
The collective investment contract must require that the custodian bank prepare and submit reports to the investment manager, Bapapam-LK and investors	Point 1 (i) and 4 (n), Rule IV.B.2	Writing collective investment contract Custody Report to regulator Working with investors	Accounting and finance Compliance Marketing
The collective investment contract must enable unit holders to obtain proof of ownership	Point 1 (l) and 5 (a), Rule IV.B.2	Writing collective investment contract	Accounting and finance

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		Custody Unit holder record-keeping	
The collective investment contract must enable unit holders to obtain periodic financial statements	Point 1 (l) and 5 (b), Rule IV.B.2	Writing collective investment contract Financial statements Working with investors	Accounting and finance Marketing
The collective investment contract must enable unit holders to obtain information about daily net asset value	Point 1 (l) and 5 (c), Rule IV.B.2	Writing collective investment contract Custody Working with investors	Accounting and finance Marketing
The collective investment contract must enable unit holders to redeem or transfer units	Point 1 (l) and 5 (d), Rule IV.B.2	Writing collective investment contract Redemption and subscription	Accounting and finance
The collective investment contract must enable unit holders to share any profit	Point 1 (l) and 5 (e), Rule IV.B.2	Writing collective investment contract Distributions Working with investors	Accounting and finance Marketing
The collective investment contract must enable unit holders to obtain investment fund reports prepared under Bapepam-LK Rule X.D.1, being monthly statement of unit holder position, and confirmation of redemption transactions	Point 1 (l) and 5 (f), Rule IV.B.2 Rule X.D.1	Writing collective investment contract Financial statements Redemption and subscription Working with investors	Accounting and finance Marketing
The collective investment contract must enable unit holders to share any proceeds of fund liquidation	Point 1 (l) and 5 (g), Rule IV.B.2	Writing collective investment contract Liquidation	Accounting and finance

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		Working with investors	Marketing
A collective investment contract that has become effective may be used to establish another investment fund if the entities bound by the contract, the type of fund and investment policies are the same	Point 17 Rule IV.B.2	Managing contracts	Accounting and finance
An investment fund can be organised as a collective investment contract, and such an investment fund must be managed by an investment manager under contract. The management contract and the custodial contract are included in the collective investment contract between the investment manager and the custodian bank	Items 1 b) and 4, Article 18, Section 1 and Items 1 and 3 of Article 21, Item 2, Article 26, Section 2, Chapter IV, Capital Markets Law	Writing collective investment contract	Accounting and finance
An investment manager of an open-ended investment fund in the form of a collective investment contract may continuously sell and repurchase participation units, with limits stipulated in the contract. Unit holders of open-end investment funds may sell their units back to the fund, and the fund must buy back their units, except where: a) The securities exchange where most of the securities in the investment fund portfolio are traded is closed b) Trading is suspended on the exchange for securities that make up most of the investment fund securities portfolio c) There is an emergency d) An event has occurred stipulated in the contract approved by Bapepam-LK	Items 1, 2 and 3, Article 20, Section 1, Chapter IV, Capital Market Law	Redemption and subscription	Accounting and finance
On every exchange day the investment manager must determine the fair market value of securities	Articles 22 and 23 of	Valuation	Investment

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in the portfolio of an open-ended fund. Net asset value is the basis for valuing units in the fund.	Section 2, Chapter IV, Capital Market Law		
1. To the extent possible an investment manager must, in good faith and in a fully responsible manner, carry out his duties in the sole interest of the investment fund.	Item 1, Article 27, Section 2, Chapter IV, Capital Market Law	Acting responsibly	Compliance
2. An investment manager that does not carry out his duties in good faith and in a fully responsible manner in the sole interest of the fund shall be liable for losses resulting from those actions	Item 2, Article 27, Section 2, Chapter IV, Capital Market Law	Avoiding loss	Risk management
A securities company licensed by Bapepam may carry on business as an investment manager, and is accountable for all securities-related activities of its directors, employees and other persons that work for the company	Items 1 and 2, Article 30, and Article 31 of Section 1 Chapter V	Licensing Acting responsibly	Compliance
Only individuals licensed by Bapepam may act as investment manager representatives. An individual licensed as an investment manager representative may work for only one securities company	Item 2, Article 33, Section 2, Chapter V, Capital Market Law	Licensing	Compliance
Securities companies are prohibited from: <ul style="list-style-type: none"> a) Influencing or pressuring clients to act in ways contrary to their interests b) Disclosing a client's name or business, unless authorized in writing by the client or otherwise required by current law and regulations c) Concealing material information from clients or making misrepresentations regarding their business capabilities or financial condition d) Recommending that clients buy or sell securities, without revealing that the securities company has an interest in such securities; or e) Buying or holding in its name or the name of an affiliated person, securities of an oversubscribed public offering, with respect to which the securities company is the 	Article 35, Section 4, Code of Conduct, Chapter V, Capital Market Law	Acting responsibly Managing conflicts of interest	Compliance

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<p>underwriter or selling agent, until orders of unaffiliated persons are filled.</p>			
<p>Securities companies must:</p> <ul style="list-style-type: none"> a) Know the background, financial situation and investment objectives of their clients; and b) Prepare and maintain proper records of their financial condition, orders, and transactions 	<p>Article 36, Section 4, Code of Conduct, Chapter V, Capital Market Law</p>	<p>Working with investors Unit holder record keeping</p>	<p>Marketing Accounting and finance</p>
<p>A broker-dealer that is the investment manager of an investment fund, or a broker-dealer that is affiliated with a fund's investment manager, may not charge commissions to the fund that are higher than would be charged by an unaffiliated broker-dealer.</p> <p>An investment manager or affiliated person may not receive any form of direct or indirect compensation that might influence that investment manager to buy or sell securities for the investment fund.</p>	<p>Articles 41 and 42, Section 4, Code of Conduct, Chapter V, Capital Market Law</p>	<p>Managing conflicts of interest</p>	<p>Compliance</p>

Contents list for compliance arrangements

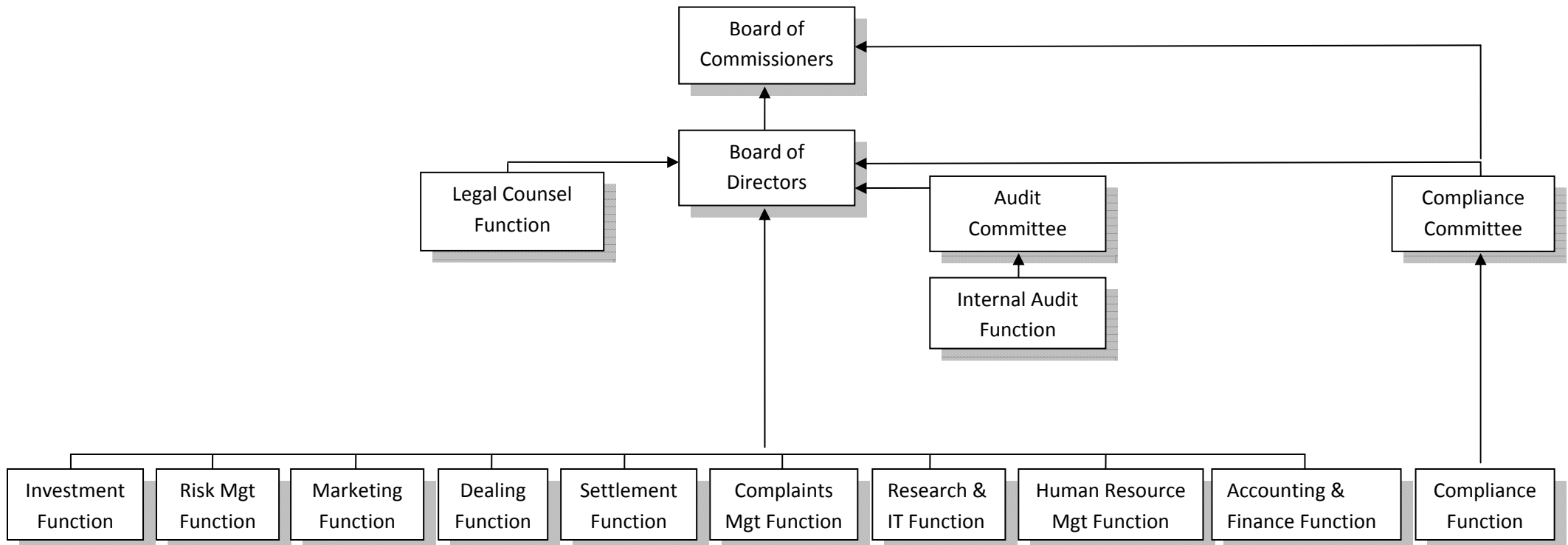
The following are usually included as a minimum. Content is tailored for each investment manager.

	Page No
1. Description of the Business	
• Number and nature of products offered	
• Numbers of investors	
• Distribution channels	
• Key features of business development plan	
2. Organisation Charts including Compliance Reporting Structures	
3. Report Formats	
• Compliance monthly report to the Board	
• Periodic report from Head of business function to Head of compliance	
• Ad hoc report of non-compliance to Head of compliance	
4. Compliance Arrangements	
<i>Must be identified by number and title</i>	
Business function: ACCOUNTING AND FINANCE	
1.1 Writing the collective investment contract	
1.2 Unit holder record keeping and related custody issues	
1.3 Payment of fees and expenses	
1.4 Preparing annual financial statements and monthly unit holder reports	
1.5 Distributions and other payments to unit holders	
1.6 Redemption and subscription	
1.7.....	
Business function: INVESTMENT	
2.1 Investment	
2.2.....	
Business function: DEALING	
3.1....	
Business function: SETTLEMENT	
4.1....	
Business function: MARKETING	
5.1....	
Business function: COMPLAINTS MANAGEMENT	
6.1....	
Business function: RESEARCH AND INFORMATION TECHNOLOGY	
7.1....	
Business function: HUMAN RESOURCES	
8.1....	
Business function: RISK MANAGEMENT	
9.1....	
Business function: COMPLIANCE	
10.1....	

EXAMPLE 1 – ORGANISATION CHART AND COMPLIANCE REPORTING STRUCTURE – LARGER ENTITY

For an investment manager which has established more governance structures

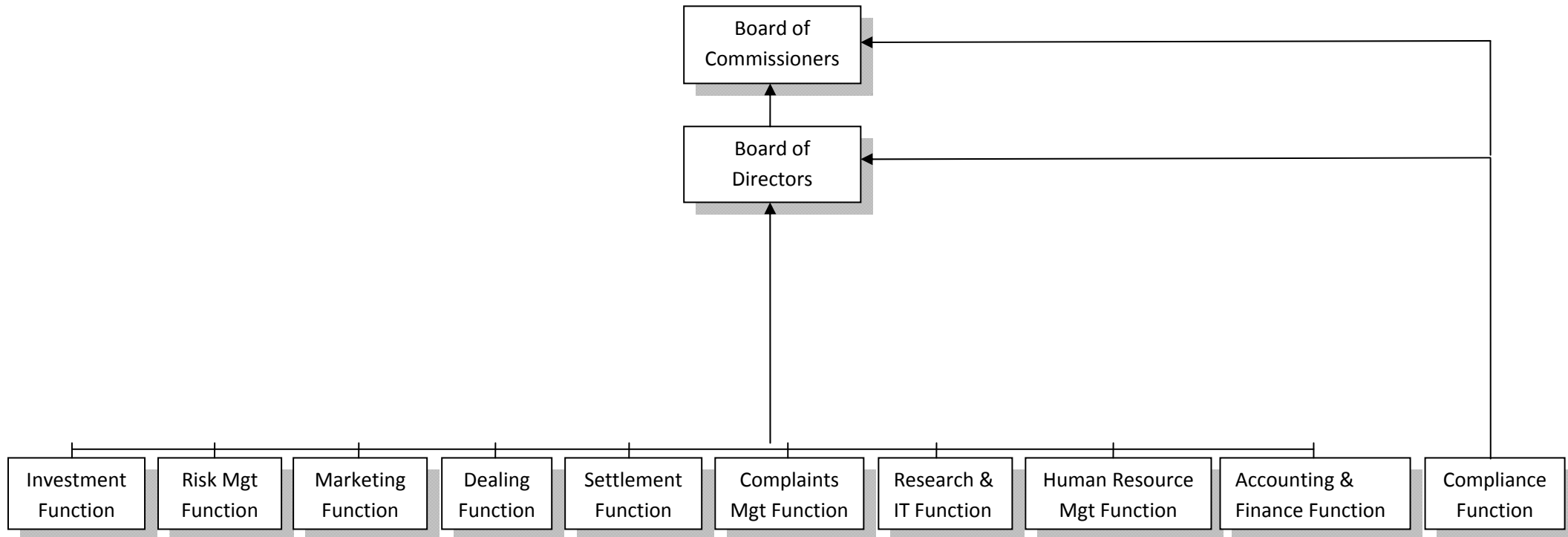
The organisation structures of an investment manager depend on many factors including the nature, size, complexity and history of the business. Bapepam-LK rule V.D.11 requires a fund manager to implement 10 business functions. However these functions may or may not be business units with separate staff and supervision. Some functions do need to be separate from each other, for example dealing and settlement, but other functions may be together for example compliance and risk management



EXAMPLE 2 – ORGANISATION CHART AND COMPLIANCE REPORTING STRUCTURE – SMALLER ENTITY

For an investment manager with fewer governance structures

The organisation structures of an investment manager depend on many factors including the nature, size, complexity and history of the business. Bapepam-LK rule V.D.11 requires a fund manager to implement 10 business functions. However these functions may or may not be business units with separate staff and supervision. Some functions do need to be separated from each other, for example dealing and settlement, but other functions may be together for example compliance and risk management



REPORT FORMATS

COMPLIANCE MONTHLY REPORT TO THE BOARD OF DIRECTORS

See examples in Section 4 above - Reporting to the Boards.

Where required, a similar format may be used for reporting to the Board of Commissioners

Information that enables the Compliance function to prepare reports for the Boards comes from:

- information provided by the business – refer to the following two report types for periodic and ad hoc reports*
- information provided by other governance structures, such as Internal Audit*
- monitoring undertaken by the Compliance function itself*

1. Strategic matters

2. Adequacy of compliance arrangements: Effects of regulatory change

3. Adequacy of compliance arrangements: Effects of business change

4. Instances of non-compliance and rectification action

5. Recommendations for Board decision

PERIODIC REPORT FROM HEAD OF BUSINESS FUNCTION TO HEAD OF COMPLIANCE

Key documents must be attached to this report – summaries of monitoring and findings.

Name and position title: *Head of*

.....

Compliance arrangement reference numbers:

.....

Reporting period: *From*.....

To.....

I confirm that the procedures described in the compliance arrangements identified above have been complied with and:

- (vii) All instances of non-compliance have been notified to the Head of Compliance. Copies of all notifications for the period are attached to this statement.
- (viii) I am not aware of any potential non-compliance that has not already been notified to the Head of Compliance.
- (ix) Any changes in procedures and monitoring have been agreed with the Head of Compliance.
- (x) I am not aware of any matter that may need to be disclosed to unit holders or that may cause unit holders to be disadvantaged that has not already been addressed.
- (xi) Records exist to demonstrate the statements made in this report.

Signature and date:

.....
.....

AD HOC REPORT OF NON-COMPLIANCE TO HEAD OF COMPLIANCE

Name and position title of person making report:

.....

Telephone number and business function:

.....

Compliance arrangement reference number(s):

.....

Date of report:

.....

Date when non-compliance was detected:

.....

Duration of non-compliance:

.....

Nature of non-compliance:

.....
.....
.....
.....
.....
.....

Is this considered an isolated incident or part of a systemic problem?

.....

Estimate the likely impact of this non-compliance:

- Numbers of unit holders affected and costs to unit holders
.....
- Costs and risks for investment manager
.....

What rectification action has already been taken, or can be taken to minimise the impact of this non-compliance? Comment on timing and costs for rectification, if possible, and identify the position best placed to be responsible for rectification.

.....
.....
.....
.....
.....
.....

Signature and date:

.....
.....

BUSINESS FUNCTION:

ACCOUNTING AND FINANCE

COMPLIANCE ARRANGEMENT:

1.1 WRITING THE COLLECTIVE INVESTMENT CONTRACT

SOURCE	COMPLIANCE OBLIGATIONS	PROCEDURES	TIMING	PERSON RESPONSIBLE
<p>law, decrees, rules</p> <p>Point 8, 22 and 23, Rule IV.B.1</p> <p>Point 1, 3(B) and 4 (c), Rule IV.B.2</p>	<p>What must be achieved</p> <p>The collective investment contract between the investment manager and the custodian bank binds unit holders and specifies the rights and responsibilities of all persons participating in the contract. A collective investment contract must contain provisions regarding:</p> <ul style="list-style-type: none"> (a) The name and address of the investment manager (b) The name and address of the custodian bank (c) Composition of the portfolio (d) Allocation of expenses (e) Policy regarding periodic profit sharing (f) Circumstances in which the manager may refuse redemption (g) Activities the investment manager must not do (h) Obligations and responsibilities of the investment manager (i) Obligations and responsibilities of the custodian bank (j) Termination of the collective investment contract (k) Changing the investment manager or custodian bank (l) Rights of unit holders (m) Procedures for unit redemption (n) Limitations on unit ownership by any investor (o) Initial net asset value of the fund (p) Submission of the annual financial statement of the fund (q) Emergency circumstances (r) Liquidation of a fund (s) Expenses for liquidation of a fund <p>A plan to change a collective investment contract or an investment fund prospectus must be submitted to Bapepam-LK and announced in an Indonesian newspaper with national circulation and available to unit holders, no later than fifteen working days before implementing the plan.</p>	<p>Steps to ensure compliance with the obligations</p> <p>Legal department: due diligence procedures numbers XX to YY, including:</p> <ul style="list-style-type: none"> • Establish due diligence committee to oversee the development, revision and completion of collective investment contracts for each product • Rights and responsibilities are described for each party depending on relevant law, decrees and rules and on the characteristics of the product • External legal expertise is obtained if necessary • The Board authorises issue of new and revised collective investment contracts 	<p>When steps are taken</p> <p>When a contract is prepared for a new product</p> <p>Annually when contracts are reviewed. A register of all reviews and updates is maintained and relevant Heads of Department who sign appropriate parts of the register following each review</p>	<p>to ensure steps are taken</p> <p>Head of legal</p> <p>Head of compliance</p>

TOOLKIT FOR COMPLIANCE PROFESSIONALS

BUSINESS FUNCTION:

ACCOUNTING AND FINANCE

COMPLIANCE ARRANGEMENT:

1.3 PAYMENT OF FEES AND EXPENSES

SOURCE law, decrees, rules	COMPLIANCE OBLIGATIONS What must be achieved	PROCEDURES Steps to ensure compliance with the obligations	TIMING When steps are taken	PERSON RESPONSIBLE to ensure steps are taken
<p>Point 8 (b) 3) and 9(a), (b), (c) and (d), Rule IV.B.1</p> <p>Point 1 (d), (h) and (i) and 4 (g), Rule IV.B.2</p>	<p>Expenses paid by the fund manager include:</p> <ol style="list-style-type: none"> 1) pre-operating expenses 2) administration expenses 3) marketing expenses 4) printing expenses 5) expenses for the preliminary distribution of a prospectus <p>Expenses paid by the unity holder are:</p> <ol style="list-style-type: none"> 1) subscription fees, if any 2) redemption fees, if any 3) switching fees, if any 4) taxes, if any <p>A custodian bank must pay expenses relating to an investment fund, and other expenses required by the collective investment contract, at the request of the investment manager. Expenses paid by the investment fund are:</p> <ol style="list-style-type: none"> 1) fee to investment manager 2) fee to custodian bank 3) insurance expense, if any 4) transaction fees 5) prospectus renewal and distribution expenses 6) auditor fees for audit of the annual financial statement after a registration statement becomes effective 7) other expenses stipulated in the contract <p>Fees paid to legal consultants, notaries or public accountants after the registration statement is effective are paid by the investment manager, the custodian bank or the investment fund, depending on who receives the benefits of those services or who is</p>	<p>The Head of Accounts Payable takes steps to ensure all expenses and management fees paid are valid and are not overpaid.</p> <ul style="list-style-type: none"> • Check monthly invoices to ensure goods and services were received and related to the scheme • Sends a monthly summary of expenses with a copy of invoices to the Chief Accountant who arranges payment. Two directors must sign each cheque • Calculates and accrues the investment manager's fee each month, as required in the collective investment contract and prospectus <p>The Chief Accountant prepares monthly management accounts, a list of expenses paid in the month and a cashflow forecast for the next 12 months, demonstrating that the manager will be able to pay its expenses, and explaining any proposed expenditure greater than Rp 10,000,000</p> <p>The investment manager keeps records of bills received and expenses payable and at appropriate times:</p> <ul style="list-style-type: none"> • Makes payment; or • Ensures investors make payment; or • Requests the custodian to make payment <p>The fund manager reconciles its records with the records of the custodian bank. Sufficient documentation of calculations and reasons is kept to enable audit</p> <p>Refer to Accounting and Finance Procedures SS to VV including:</p> <ul style="list-style-type: none"> • Financial record keeping for accounts receivable and payable 	<p>Timing as determined by the collective investment contract.</p> <p>Otherwise, monthly at a minimum and more frequently if required.</p>	<p>Head of accounting</p>

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	responsible for the negligence leading to the need for those services	• Approval for payment and separation of duties		
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BUSINESS FUNCTION:

ACCOUNTING AND FINANCE

COMPLIANCE ARRANGEMENT:

1.4 PREPARING ANNUAL FINANCIAL STATEMENTS AND MONTHLY UNITHOLDER REPORTS

SOURCE law, decrees, rules	COMPLIANCE OBLIGATIONS What must be achieved	PROCEDURES Steps to ensure compliance with the obligations	TIMING When steps are taken	PERSON RESPONSIBLE to ensure steps are taken
<p>Point 31 and 32 Rule IV.B.1</p> <p>Point 1 (h), (l) and (p) and 3 (k) and (l), 5 (b), (f), 8 and 9, Rule IV.B.2</p>	<p>The annual financial statement of an investment fund must be audited by an accountant registered with Bapepam-LK and must be submitted by the investment manager to Bapepam-LK no later than the end of the third month after the end of the fiscal year.</p> <p>The annual financial statement must be submitted to unit holders</p>	<p>The investment manager:</p> <ul style="list-style-type: none"> • prepares monthly management accounts and annual financial statements for the fund, based on the chart of accounts and relevant accounting standards • reconciles its records with the records of the custodian bank. • provides the auditors with access to all necessary information to audit the fund's financial statements. 	<p>Monthly</p>	<p>Head of accounting</p>
<p>Rule X.D.1</p>	<p>Unit holders must receive the monthly statement of unit holder position prepared under Bapepam-LK Rule X.D.1. The investment manager and the custodian bank must ensure the completeness and accuracy of this reports</p>	<p>The auditor prepares the audit report for the fund based on relevant auditing standards and taking account of the records of the custodian bank.</p> <p>The investment manager reconciles all records with the custodian bank before preparation of the monthly unit holder statements.</p> <p>Refer to Accounting and Finance Procedures SS to VV including:</p> <ul style="list-style-type: none"> • preparation of monthly management accounts • preparation of monthly unit holder statements • application of accounting standards in annual financial statements • working with registered auditors <p>Refer to Marketing Procedures XX to ZZ and DD to FF regarding:</p> <ul style="list-style-type: none"> • distribution of monthly and annual reports to unit holders • annual review and submission of revised prospectus with annual financial statements. 	<p>Annually or more frequently if required by the auditors</p> <p>Monthly</p>	<p>Head of accounting</p> <p>Head of accounting</p>

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BUSINESS FUNCTION:

ACCOUNTING AND FINANCE

COMPLIANCE ARRANGEMENT:

1.5 DISTRIBUTIONS AND OTHER PAYMENTS TO UNITHOLDERS

SOURCE law, decrees, rules	COMPLIANCE OBLIGATIONS What must be achieved	PROCEDURES Steps to ensure compliance with the obligations	TIMING When steps are taken	PERSON RESPONSIBLE to ensure steps are taken
<p>Point 8 (b) 5), 28 and 38, Rule IV.B.1</p> <p>Point 1 (h), (i), (l), (m) and (r), 3 (e) and (f), 4 (a), (h) and (k), and 5 (e) and (g), Rule IV.B.2</p>	<p>The custodian bank make payments to unit holders as required under the collective investment contract</p> <ul style="list-style-type: none"> • Unit holders must share any profit • Unit holders must receive payments for redemptions. Payment for redemption must be processed as soon as possible and no later than 7 exchange days after the redemption date • Unit holders must share the proceeds of any fund liquidation 	<p>The investment manager:</p> <ul style="list-style-type: none"> • reconciles its records with the records of the custodian bank • updates its records based on payment information from the custodian bank • ensures sufficient information is kept to provide correct information to taxation authorities • ensures periodic audit of payments to unit holders 	<p>As the collective investment contract requires, within 7 days for redemptions, or otherwise at least monthly</p>	<p>Head of accounting</p>

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BUSINESS FUNCTION: ACCOUNTING AND FINANCE

COMPLIANCE ARRANGEMENT: 1.6 REDEMPTION AND SUBSCRIPTION

SOURCE law, decrees, rules	COMPLIANCE OBLIGATIONS What must be achieved	PROCEDURES Steps to ensure compliance with the obligations	TIMING When steps are taken	PERSON RESPONSIBLE to ensure steps are taken
<p>Point 1 (l) and 5 (d), Rule IV.B.2</p> <p>Items 1, 2 and 3, Article 20, Section 1, Chapter IV, Capital Market Law</p> <p>Point 12, Rule IV.B.1</p> <p>Point 1 (m) and 3(e) and (f), Rule IV.B.2</p> <p>Point 27, Rule IV.B.1</p> <p>Point 1 (h) and (m) and 3(e) and (f) and 6, Rule IV.B.2</p> <p>Point 2, Rule IV.B.1</p> <p>Point 1 (m), Rule IV.B.2</p> <p>Point 8 (b) 6), Rule IV.B.1</p> <p>Point 1 (i) and (m) and 4 (j)</p>	<p>The collective investment contract must enable unit holders to redeem or transfer units</p> <p>An investment manager of an open-ended investment fund in the form of a collective investment contract may continuously sell and repurchase participation units, with limits stipulated in the contract.</p> <p>Unit holders of open-end investment funds may sell their units back to the fund, and the fund must buy back their units, except with some exceptions</p> <p>An investment manager may establish a procedure to buy or sell units in an investment fund</p> <p>A subscription or redemption form received in complete form by the fund manager before 1.00pm West Indonesian time must be processed based on the net asset value of the investment fund stated at the end of that exchange day. A form received after 1.00pm West Indonesian time must be processed based on the net asset value of the investment fund at the end of the next exchange day.</p> <p>If an investment fund in the form of a collective investment contract is listed, other rules for subscription and redemption may apply, if stipulated in the collective investment contract and the prospectus of that investment fund.</p> <p>An investment manager may sell or redeem participation units through investment fund selling agents authorised by the fund manager</p> <p>A custodian bank must ensure that participation units are issued only after payment has</p>	<p>The investment manager and the custodian establish clear procedures allocating responsibility for checking, accepting, refusing and acknowledging receipt of application forms for subscription and redemption, and for accepting, processing and acknowledging payments for subscription and making payments for and reporting on redemption, taking account of any additional requirements in the collective investment contract and the prospectus.</p> <p>Refer to procedures UV and WX</p> <p>Sufficient trained and experienced staff are allocated to ensure subscriptions and redemptions can be processed on time, and at the correct price. Periodic staff rotations and thought about career progression ensure that interest in these roles can be maintained.</p> <p>Refer to human resource management policy BRB</p> <p>Investor records of the investment manager and the custodian are reconciled</p> <p>Refer to procedures XY, ZA and BC</p>	<p>Before starting each fund</p> <p>Ongoing review</p> <p>A least weekly, and more often if warranted by the number of</p>	<p>Head of administration (working with counterpart in custodian)</p> <p>Head of administration</p> <p>Head of administration</p>

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and (k), Rule IV.B.2	been received from subscribers		transactions during the week for each fund.	
Point 8 (b) 7), 25 and 26, Rule IV.B.1	Confirmation letter or proof of subscription instruction or redemption instruction must be sent to the unit holder no later than one working day after the instruction has been received if:			
Point 1 (h), (i) and (m) and 3(e) and (f), Rule IV.B.2	<ul style="list-style-type: none"> a) all payment and the subscription form have been received and are complete b) the redemption form has been received and is complete 	Review marketing action if subscriptions or redemptions are refused for a long period.	Case by case	Head of marketing (working with custodian and selling agent)
Point 28, Rule IV.B.1	The confirmation letter or other proof required in Point 25 of Bapepam-LK Rule IV.B.1 must be sent by the custodian bank in writing no later than seven exchange days after the unit holder instruction has been received.	Work with selling agents including reconciliation of redemption and subscription records.		
Point 1 (h) and (m) and 3(e) and (f), Rule IV.B.2	Payment for redemption must be processed as soon as possible and no later than seven exchange days after the redemption date.	Refer to marketing procedures TUR		
Point 1 (l) and 5 (f), Rule IV.B.2				
Rule X.D.1	The collective investment contract must enable unit holders to obtain investment fund reports prepared under Bapepam-LK Rule X.D.1, being monthly statement of unit holder position, and confirmation of redemption transactions			
Point 8 (b) 5), Rule IV.B.1	A custodian bank must organise redemptions including payments, keep records, and take other actions as specified in the collective investment contract			
Point 1 (i) and (m) and 4 (a), (h) and (k), Rule IV.B.2	After notifying Bapepam-LK in writing with a carbon copy to the custodian bank, an investment manager may refuse investor redemption instructions or instruct the representatives of authorised selling agents to refuse investor redemption instructions in the following circumstances:			
Points 3 and 5, Rule IV.B.1				
Point 1 (f), (h) and (m), and 3 (e) and (f) Rule IV.B.2	<ul style="list-style-type: none"> (a) the securities exchange where most of the securities in the fund's portfolio are traded is closed (b) trading in most of the securities in the fund's portfolio is suspended (c) there is another emergency (d) other circumstances as stipulated in the investment management contract, after obtaining the approval of Bapepam-LK 			
Point 4, Rule IV.B.1				
Point 1 (i) and (m) and 4 (k), Rule IV.B.2				
Point 6, Rule IV.B.1	Where an investment manager refuses redemption, an investment manager must notify unit holders in writing no later than one exchange day after the date of receiving a redemption instruction.			
Rule V.D.10				

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<p>Point 1 (f) (h) and 3 (e) and (f), Rule IV.B.2</p>	<p>A custodian bank cannot issue new units during a period when redemption is refused.</p>			
<p>Point 8 (b) 8), Rule IV.B.1</p>	<p>An investment manager or authorised selling agent must refuse a subscription instruction from a subscriber if there is any indication of violation of Bapepam-LK Rule V.D.10 regarding 'know your client' requirements.</p>			
<p>Point 1 (i), and 4 (o) Rule IV.B.2</p>	<p>A custodian bank must refuse any instruction from the investment manager, in writing with a carbon copy to Bapepam-LK, if that instruction violates capital market regulations or the collective investment contract</p>	<p>Discuss with the custodian. Review internal procedures to avoid repetition Advise the regulator of steps taken</p>	<p>Case by case</p>	<p>Head of compliance</p>

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<p>Law Point 8 (b) 8), Rule IV.B.1</p>	<p>asset-backed security must have a value of no more than 5% of the net asset value of the investment fund (r) invest in securities not issued through a public offering or not listed on the Indonesian stock exchange, except securities with a rating from a credit rating agency, or money market securities, or securities issued by the Government of the Republic of Indonesia or by an international monetary institution of which the Government of the Republic of Indonesia is a member</p>			
<p>Point 1 (i), and 4 (o) Rule IV.B.2</p>	<p>(k) be involved in any activity other than securities investing, re-investing or trading (l) be involved in any short selling transaction (m) purchase any securities on margin (n) issue bonds or credit securities</p>			
<p>Point 16, Rule IV.B.1</p>	<p>(o) be involved in any type of loan other than short term loans relating to the settlement of transactions. Such loans shall be no more than 10% of the value of the investment fund portfolio</p>			
<p>Point 1 (c) and (i), Rule IV.B.2</p>	<p>(s) invest in asset-backed securities not issued through a public offering and not rated by a credit rating agency. (a) purchase securities issued by any person affiliated with the investment manager where those securities have a value of more than 20% of the net asset value of the investment fund, unless the affiliation is the result of government participation</p>			
<p>Point 17, Rule IV.B.1</p>	<p>(b) purchase securities issued by a unit holder or an affiliate of the unit holder based on an agreement between the investment manager, that unit holder or that affiliate of the unit holder</p>			
<p>Point 1(g) and (i), Rule IV.B.2</p>	<p>(p) purchase any securities underwritten by a securities company that is also the investment manager of the investment fund, or underwritten by an affiliate of the investment manager, unless such affiliation is a result of government participation (q) enter any joint transaction or profit-sharing contract with the investment manager or its affiliates (r) invest in asset-backed securities offered in a public offering if: 1) the investment manager of the asset-backed securities is the same as the investment manager of the investment fund 2) those asset-backed securities are bought by affiliates of the investment manager 3) the investment manager is affiliated with the initial creditor of the asset-backed securities 3. An investment fund may neither borrow nor lend money 4. An investment fund may not acquire shares or participation units of another investment fund</p>			
	<p>A custodian bank must refuse any instruction from the investment manager, in writing with a carbon copy to Bapepam-LK, if that instruction violates capital market regulations or the collective investment contract</p> <p>Where the portfolio composition of the investment fund does not meet the requirements of Point 14 (b), (c), (d), (e), (g), (l), and (o) in Rule IV.B.1, the custodian bank must send a letter of admonition to the investment manager and a carbon copy to Bapepam-LK no later than two working days after the change in portfolio composition occurred. In this case, the investment manager must adjust the composition of the portfolio of the investment fund no later than 10 days after the change in portfolio composition occurred.</p> <p>If the investment manager violates the investment policy for the investment fund, or the provisions of the collective investment contract, or capital market regulations, the custodian bank must send a letter of admonition to the investment manager and a carbon copy to Bapepam-LK no later than two working days after the violation is discovered.</p>	<p>Discuss with the custodian.</p> <p>Review internal procedures to avoid repetition</p> <p>Advise the regulator of steps taken</p>	<p>Case by case</p>	<p>Head of compliance</p>

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	Refer to operating procedures SS and TT for new product design, and to procedures RR and NN for working with the custodian and monitoring compliance with fund investment restrictions.			
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PROGRAM EVALUATION

1. I understood the **OBJECTIVES** of this program

Not at all Somewhat Very clearly

2. The session on **IDENTIFYING COMPLIANCE OBLIGATIONS** was useful

Not at all Somewhat useful Very useful

3. The sessions on **DEVELOPING AND UPDATING COMPLIANCE ARRANGEMENTS** were useful

Not at all Somewhat useful Very useful

4. The session on **REPORTING TO THE BOARD AND GOVERNANCE STRUCTURES** was useful

Not at all Somewhat useful Very useful

5. The session on **MONITORING THE USE OF COMPLIANCE ARRANGEMENTS** was useful

Not at all Somewhat useful Very useful

6. The session on **WORKING WITH STAKEHOLDERS** was useful

Not at all Somewhat useful Very useful

7. If there was **ONE THING I COULD CHANGE** to make this program more effective, it would be

8. I would **RECOMMEND THIS PROGRAM** to others: YES NO

9. Other comments:
