



**Guidelines for Collective Investment Schemes – Conflict of Interest &
Risk Management**

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1.0 Introduction

In our continued effort to improve our regulatory oversight, the Financial Services Commission is implementing new guidelines for Collective Investment Schemes (CIS). These Guidelines should be adhered to in conjunction with the Securities (Collective Investment Schemes) Regulations, the Securities Act and any relevant guidelines. These guidelines may be referred to as the Guidelines for Collective Investment Schemes - Conflict of Interest and Risk Management.

2.0 Requirements

2.1 *Unitholders Limit*

The FSC notes that investments concentrated by one investor may present a liquidity risk or jeopardize the continuation of the fund should larger investors opt to leave the fund. As such, the FSC now requires that the investments of an individual investor, inclusive of Investment managers, should not form more than 20% in any fund or portfolio. Individual investor in this regard, refers to any individual or body corporate whether having singular or multiple accounts in whose name this/these accounts are held.

This limit is not intended to apply to:

1. Investments for which the purpose is the seeding of the fund. The exemption is no longer than two years, unless approved by the FSC;
2. Listed closed ended funds.

Investment managers will be required to file with the Financial Services Commission on a quarterly basis the holdings of its top 10 unitholders.

Investment managers are required to appropriately manage conflicts of interest between themselves and investors in the fund. The FSC recognizes that investments made by Investment managers in the CISs they manage may signal confidence to fund participants, however such investments also present a conflict of interest for the beneficial management of the fund between the Investment Manager and investors.

2.2 *Conflict of Interest Policy*

Investment Managers are required to put in place a Conflict-of-Interest Policy ratified by the Board of Directors which outlines how the Investment Manager proposes to manage any existing and potential conflicts arising from their relationship and alignment with investors. Such policy should be detailed and should include the following:

- Factors giving rise or which may give rise to the conflicts of interest – The policy should outline in as much detail as available the factors inherent in the company, its operations and the relationship between its staff/directors or associated persons which may give rise to a conflict of interest.
- Control and Prevention of conflicts of interest – The policy should detail the methods employed to avoid, mitigate, or manage observed or potential conflicts of interest between the CIS and clients.
- Monitoring of conflicts of interest – The policy should detail how conflicts and control processes are monitored and the frequency of this monitoring.
- Frequency in which policy is updated – Entities are encouraged to continuously update its policies as conflicts arise or disappear and bearing in mind new strategies for mitigation and control. Such frequency should be included in the policy but should be reviewed at least annually.
- Checks and audits of policy and frequency of same – Entities are encouraged to conduct audits either internally or independently of its policy and adherence to same periodically.
- Disclosure of conflicts of interest – where conflicts cannot be controlled or mitigated, these conflicts must be disclosed to investors describing the conflict, the nature and/or source of the conflict, the risks arising from the conflict and how those risks will be mitigated.
- Notify the FSC of proposed changes to the policy at least 30 days prior to implementing such change(s).

2.3 Valuation of Assets in the Fund

Valuations of assets in a fund potentially presents conflicts between the interests of those who value the assets and the CIS investors. Such conflict may occur where the valuation of the asset is aligned in the interest of the Investment Manager but not the investor. Such as overvalued assets which are linked to management fees, assets placed in a CIS which are owned or managed by an Investment Manager, undervaluing assets among other things. As such, valuations should be conducted in a manner which is transparent and aimed at mitigating any potential conflicts. Investment Managers are therefore required to observe the principles below at a minimum:

- The Investment Manager should engage an independent pricing service or other experts to assist the CIS in obtaining independent valuations.
- The Investment manager should establish comprehensive, documented policies and procedures to govern the valuation of assets held or employed by a CIS.
- The policies and procedures should identify the methodologies that will be used for valuing each type of asset held or employed by the CIS.

- The valuation policies and procedures should seek to address conflicts of interest.
- The assets held or employed by a CIS should be consistently valued according to the policies and procedures. These policies and procedures should be approved by the Board of the Investment Manager and address any conflicts identified in the valuation process and the methodology to mitigate same.
- Investment Managers are required to advise the Financial Services Commission in writing of any identified conflicts, how the Investment Manager proposes to address them. Such conflicts are also required to be disclosed in the offering circular.

2.4 Risk Management and Liquidity

Investment managers are required to implement a policy addressing the fund's risk management and liquidity management. This policy should be detailed and ratified by the Board of Directors while at a minimum including the following:

- The risk management process – the policy should outline how risks are identified, classified, assessed, managed and reviewed;
- Risk limits – the policy should clearly detail the limits applied by the investment manager in the management of the fund and how those limits are managed including the responsible parties and approval and reporting processes;
- The roles and responsibilities of senior management and the Board in the risk management process;
- Liquidity risk management process – the investment manager should ensure that an appropriate process is in place for the management of liquidity in the CIS;
- Stress Testing - the policy should include the managers approach to stress testing including the reasonableness and relevance of its stress test assumptions and satisfy itself that stress tests are based on reliable and up-to-date information. If the investment manager decides not to perform stress testing, the investment manager is expected to maintain documentation of the rationale and be subject to the review of the senior management or the Board.

3.0 Implementation

These guidelines are targeted to be implemented by December 31, 2024, subject to such transitional arrangements which may be required by individual investment managers and in line with the schedule below:

Date	Percentage
March 2024	50
June 30, 2024	30
December 31, 2024	20

The FSC must be provided with an execution plan for the reduction in units for each unitholder in excess of 20% by December 31, 2023.