



FSCA COMMUNICATION 23 OF 2020 (CIS)

IMPACT OF CORONAVIRUS (COVID-19): EXPECTATIONS ON MANAGERS OF COLLECTIVE INVESTMENT SCHEMES

1. Background

The Financial Sector Conduct Authority (the Authority) continues to communicate with its regulated entities to ensure that they are kept abreast of the regulatory developments during the current Covid-19 crisis.

The purpose of this communication is to outline certain expectations of the Authority regarding the duties of managers of collective investment schemes (the managers) and their responsibility to ensure that all customers are treated fairly during the national lockdown.

2. Ensuring compliance with portfolio risk limits

While the Authority expects managers to comply with the legislative risk requirements in their hedge funds portfolios, we note that certain managers may be experiencing issues around ensuring compliance with portfolio risk limits, more specifically those using the value-at-risk (VaR) methodology. The Authority expects managers experiencing VaR breaches during this exceptionally volatile period to take note of the following steps:

- Notify the Authority of the breach as soon as it becomes evident and provide the specific portfolio breach reports to the Authority immediately as soon as the breach reports are available to the manager;
- Have appropriate remediation action plans in place to deal with the breaches and provide the Authority with the corrective measures that are being taken to correct the breaches;

- Monitor and possibly review risk management policies and risk controls to ensure that they are still appropriate and effective; and
- Ensure that all actions taken to manage the portfolios are appropriate and are always in the best interest of the investors.

3. Portfolio review applications

We are aware that some managers continue to submit portfolio review applications to the Authority and are struggling to obtain physical signatures on their supplemental deeds and other related documents due to the nationwide lockdown.

The Authority is willing to accept electronic signatures on supplemental deeds to approve changes to portfolios. Managers and trustees may use such electronic signatures where appropriate and relevant documents should be construed accordingly.

Further, in all cases where an electronic signature is used, the managers and trustees must ensure that the signatory has seen and agreed with all the information in the documents.

4. Liquidity risk management

The Authority is cognisant of the recent market volatility and its effects on the overall portfolio liquidity.

Whilst the Authority expects managers to robustly and effectively apply liquidity risk management strategies through various scenarios testing and liquidity evaluation techniques in order to be able to respond to the risks identified during this time, the Authority would like to request managers who are experiencing liquidity constraints related to increased repurchase requests to inform us immediately as soon as the manager becomes aware and without delay of the liquidity constraints.

5. Communication with investors

The Authority understands the operational challenges that managers are facing in this current situation and that there may be variations in their forms of communication with investors during this period.

In this context, the Authority does not have a supervisory concern about the forms of communication that managers are using to communicate with investors as long as managers ensure that all forms of communication from the investors are monitored and

managers apply the necessary security measures in order to ensure the optimal safety of their investors' information and of the business at large.

The Authority encourages managers to continue to actively communicate with investors this time and ensure that necessary measures are taken into account to resolve customer complaints timeously and that turn-around-times on resolving complaints through any channels are not compromised.

6. Contact

For more information regarding this Communication please send an e-mail to Chwayita Mtebele at Chwayita.Mtebele@fsca.co.za.