

CAPITAL MARKETS AUTHORITY OF LEBANON
IMPLEMENTING REGULATIONS

Series 8000

COLLECTIVE INVESTMENT SCHEMES

NOTES ON THIS DRAFT

1. Scope – This Regulation covers the establishment and operation of collective investment schemes including Islamic schemes in Lebanon under Law 706 of December 2005. It does not cover use of CIS for securitization under Law 705 since this is a separate law that simply uses the mutual fund form for another purpose. As is normal internationally, the Regulation requires collective investment schemes offered to the public to be subject to rules that provide a higher standard of investor protection. ‘Exempt offer schemes’ are able to take greater risks (for instance, in investments and leverage) and as a consequence are only permitted to be offered to those who are expert enough to understand that risk (professional clients) or rich enough to sustain that. This is achieved by applying Parts A to D of this Regulation to all schemes established in Lebanon whether for public offer or for exempt offer. Part E, which requires higher standards of investor protection, applies only to publicly offered schemes established in Lebanon; Part F applies only to exempt offer schemes established in Lebanon and Part G applies only to foreign schemes offered in Lebanon, with different articles governing those funds for public or exempt offer.

2. Assumptions

2.1 International standards – this Regulation is drafted on the assumption that international standards should be followed where this is practical and where this is suited to the present Lebanese environment and consistent with Law 706. Wherever possible, this regulation aligns with CMA Decision No 14, to minimize unnecessary market disruption and cost. The international standards used are those of IOSCO and of the European Union’s Undertakings for Collective Investments in Transferable Securities Directive (‘UCITS Directive’) that governs publicly offered open ended collective investment schemes. The regional standards used are those of Saudi Arabia (whose collective investment scheme regulations are presently being revised and which do not at present cover custody for funds, a major failure of compliance with international standards) and of Dubai. Nothing in the proposed regulations would prevent a scheme created under the Lebanese regime from being marketed outside Lebanon or investing outside Lebanon.

2.2 Legal structure of funds created under Law 706 – while Law 706 envisages both mutual funds (that is, funds formed under the law of contract) and investment companies with variable capital (that is, open ended funds formed under company law), only mutual funds are presently created in Lebanon under this law. This

Regulation therefore covers only mutual funds¹. Those funds that are presently sold into Lebanon that have been formed as investment companies have been created under a foreign law. It is not necessary for this Regulation to enable investment companies or other legal structures such as trusts in order that funds formed in these structures under a foreign law are able to be sold into Lebanon.

2.3 Operational structure of funds – Law 706 enables both open ended and closed ended mutual funds (under section 2 of the Law) so both are covered in this Regulation. The Regulation requires open ended funds to redeem their units not less than twice per month at regular intervals which is the European standard. Closed ended funds have no obligation to redeem their units. The Regulation also introduces interval funds that are a hybrid of the two, which have to only redeem their units twice per annum.

2.4 Scheme investments – Law 706 refers to ‘collective investment schemes in securities’ and does not make any reference to investment in other asset classes such as real estate or commodities. Part E of the Regulation does not permit publicly offered open ended funds to invest in assets other than deposits, money market instruments and securities (the European UCITS Directive, a commonly accepted international standard for such funds, has the same requirement) but does allow closed ended schemes to invest in real estate. Article 38 of Law 706 states that a scheme may not invest in another scheme “in case the statutes and binding provisions of the latter are inconsistent with the provisions of this Law” so under this Regulation a publicly offered scheme is not permitted to invest in another scheme whose investments do not comply with Law 706.

2.5 Foreign schemes – under this Regulation, a foreign scheme is a scheme created under a law other than the Lebanese collective investment schemes law. This is consistent with Articles 2 and 3 of Law 706. Provision is made for such schemes either to be for public offer (‘recognized scheme’) or for exempt offer (‘foreign exempt scheme’) in Part G.

2.6 Operation of mutual funds – the Regulation requires that a mutual fund be operated in Lebanon by a CIS manager whether the fund is for public offer or for exempt offer. The term ‘CIS manager’ is used for this entity to prevent confusion with an ‘investment manager’ that may manage discretionary assets under Law 161. Law 706 also requires a scheme to have a custodian that is called a ‘CIS custodian’ in the Regulation. This term is used because a CIS custodian has both safekeeping and supervisory duties which includes monitoring the scheme’s compliance with investment and borrowing powers set out in the Regulation and in the prospectus of the scheme (refer Articles 14 and 15 of Law 706) which is different from a ‘bare’ custodian, which only safekeeps and administers assets for clients.

2.7 The CIS manager of a scheme formed under Lebanese law is required to be an approved institution which is approved by the Authority to undertake CIS management.

¹ It has been agreed that these will be drafted subsequently.

2.8 The CIS custodian is required to be an approved institution approved by the Authority to undertake CIS custody or to be a specialized department of the central securities depository, Midclear.

2.9 Publicly offered schemes – the Regulation requires all collective investment schemes for public offer in Lebanon to be approved by the CMA if they are created in Lebanon. Foreign schemes for public offer in Lebanon are required to be ‘recognized’ by the Authority which means that the regulator ‘recognizes’ the jurisdiction in which they are based as offering the same protections to Lebanese investors as the Law 706 and the Regulation under it. It is proposed that all publicly offered schemes operating in Lebanon would maintain this status but would have to come into compliance with the new regulation within an eighteen month transitional period.

2.10 Exempt offer schemes - the Regulation establishes that the offer of a scheme in Lebanon which requires a minimum investment of \$US 100,000 that is made only to professional investors as shown in the definitions given is an exempt offer (‘exempt offer scheme’) that is subject to notification to the Authority of such offer. Any offer of a scheme in Lebanon that does not meet both of these requirements is a public offer and subject to those requirements.

2.11 All foreign-based schemes presently offered in Lebanon (including the FFA schemes) would be required if they wish to be publicly offered to demonstrate that they meet the requirements for recognized schemes by means of submission of a standardized update form to the CMA. This would have to demonstrate to the CMA’s satisfaction that the scheme concerned is approved by a regulator as a publicly offered scheme in a jurisdiction that it is recognized by the Authority as providing equivalent protection to Law 706. If the scheme does not meet the requirements for recognized schemes then it would be treated as a foreign exempt scheme. All foreign schemes will be required to appoint an approved distribution agent (an approved institution approved by the CMA to deal in and to advise on securities under Law 161) to provide information and dealing services for that scheme in Lebanon.

3. Laws and Decisions/Circulars – the following laws and circulars have been considered in drafting this Regulation:

- Law 706
- Law 705
- Law 161
- CMA Decision 14/BDL Circular 49
- CMA Decision 15/BDL Circular 98
- Draft Securities Offering, Licensing and Conduct of Business Regulations

4. There will be three categories of collective investment schemes

Category	Description
Approved scheme	A collective investment scheme created under Law 706 that meets the requirements for publicly offered collective investment scheme in Lebanon and is approved by the Capital Markets Authority
Recognized scheme	A collective investment scheme created in a foreign jurisdiction that offers equivalent protection to Law 706 that is approved (or equivalent) under that law as eligible for public subscription and is recognized as eligible for public offer in Lebanon by the Capital Markets Authority
Exempt offer scheme	<p>Exempt offer scheme - a collective scheme created under Lebanese law that has registered its exempt offer with the Authority, that is only offered to professional clients in Lebanon and specifies a minimum subscription of \$US 100,000 into the scheme</p> <p>Foreign exempt offer scheme - a collective investment scheme created in a foreign jurisdiction that has registered its exempt offer with the Authority that is only offered to professional clients in Lebanon and that specifies a minimum subscription of \$US 100,000 into the scheme</p>

Definitions used in this Regulation – *Note that some of these are repeated, for the purposes of consultation, from other Regulations – these are shown in italics.* Once the Regulation is finalized the definitions will appear in the Glossary (*Note: these definitions are much more extensive than definitions previously given in the Lebanese CIS framework and more extensive than those used in Saudi Arabia and aim to give greater certainty to regulated and regulator.*)

Accumulation unit - a unit in a collective investment scheme or sub-fund where income and gains roll up in the value of the unit and are not distributed to the holder.

Annual management charge – charge payable from scheme property to the CIS manager per annum for ongoing operation of the scheme expressed as a percentage of the value of the scheme or sub-fund.

Appointed independent expert – a person holding a professional qualification in valuation of real estate that is independent of the CIS manager and its associates and the CIS custodian and its associates that is not engaged in the finding of real estate for the scheme, or finding the scheme for real estate.

Approved distribution agent – an approved institution licensed by the Authority to arrange transactions in securities and advise on investing in securities appointed by the CIS manager of a recognized collective investment scheme or foreign exempt scheme to distribute units of that scheme in Lebanon and to provide the distribution services specified in Article 8702 (5).

Approved institution – *an entity licensed by the Authority to undertake securities markets activity.*

Approved collective investment scheme ('approved scheme') – a collective investment scheme created under Law 706 and approved by the Authority under this Regulation for public offer in Lebanon.

Associate – a controller of a CIS manager or CIS custodian, a person that has close links with the CIS manager or CIS custodian, and in relation to an individual person who is a controller of the CIS manager or CIS custodian, that person's spouse, and any entities controlled by that person.

Authority – the Capital Markets Authority [*Authority will not be underlined in the text*]

Base currency – the currency in which a collective investment scheme's annual reports and accounts are prepared.

CIS annual report and accounts - a report on the operations, financial performance and financial condition of a collective investment scheme (or sub-fund) over an accounting year including the auditor's report.

CIS custodian – an approved institution for the provision of custody acting in this capacity to a collective investment scheme formed under Lebanese law.

CIS manager – an approved institution to manage collective investment schemes created under Lebanese law including a CIS manager that is an Islamic institution.

CIS operator – where a collective investment scheme is formed under a foreign law, the entity responsible for the operation of the scheme that includes the Board of Directors of a scheme that is a corporate scheme.

CIS prospectus - a written statement that discloses the terms of the offering of an approved and an exempt offer collective investment scheme.

CIS register – record of the holders of units in a scheme (or a sub-fund).

CIS records - all records of the operation of a collective investment scheme including accounting for the scheme (or sub-fund); valuation of scheme (or sub-fund) assets; calculation of the net asset value per unit of units in a scheme (or sub-fund) and of unit prices; of the initial offer; for an open ended scheme and interval scheme or sub-fund, all orders for and transactions in units of a scheme (or sub-fund); and of the portfolio and portfolio transactions for the scheme (or sub-fund) and of the CIS register.

CIS short form annual report - abbreviated annual report for a licensed collective investment scheme (or sub-fund).

CIS statute: founding document of a mutual fund formed under Law 706.

Close links – *the relationship between an applicant or an approved institution and any of the following persons:*

- 1) a controller of an applicant or approved institution
- 2) a company controlled by an applicant or approved institution
- 3) a company controlled by a controller of an applicant or approved institution, or
- 4) a company controlled by any combination of the persons described in 1), 2) and 3) above.

Closed ended collective investment scheme ('closed ended scheme') – a collective investment scheme whose capital is fixed and that has no obligation to redeem its units from unitholders upon their request.

Closely related person – *the direct ascendants, direct descendants and spouse of an insider who share the same home with an insider.*

Collective investment scheme ('CIS' or 'scheme') – an arrangement including a mutual fund or investment company that enables a number of investors to pool their assets for professional management and diversification of risk.

Constituting document – the founding document of a collective investment scheme: for a mutual fund, the CIS statute of that fund.

Controller – *a person who holds, directly or indirectly, 25% or more of the voting rights in a company, or who has the right to appoint 25% or more of the board of directors or governing body. "Controlled by" is construed accordingly.*

Distribution – the process through which securities are offered to the public and subjected to the control of the Authority.

Domestic collective investment scheme – a collective investment scheme formed under Lebanese law.

Exempt CIS offer – subscription to a collective investment scheme offered only to professional clients in Lebanon and that has a minimum subscription amount of \$US 100,000 or the current equivalent in Lebanese or any other currency.

Exempt offer collective investment scheme (‘exempt offer scheme’) – a collective investment scheme offered only to professional clients in Lebanon and that has a minimum subscription amount of \$US 100,000 that has registered said exempt CIS offer with the Authority.

Foreign collective investment scheme (‘foreign scheme’) – a collective investment scheme created in a foreign jurisdiction.

Foreign exempt offer collective investment scheme (‘foreign exempt offer scheme’) - a collective investment scheme created in a foreign jurisdiction offered only to professional clients in Lebanon and that has a minimum subscription amount of \$US 100,000 that has registered that exempt offer with the Authority.

Fund of funds – a collective investment scheme investing only in units or shares of other collective investment schemes and deposits.

Income unit – a unit in a collective investment scheme (or sub-fund) in respect of which income and realized gains are periodically distributed to the unitholder.

Interval collective investment scheme (‘interval scheme’) – a scheme that is obliged to redeem its units from holders at a price related to net asset value of the scheme property on a regular periodic basis at least twice per annum.

Investment company – as defined in Article 20 of Law 706.

Investment objective - the priority of a collective investment scheme to provide capital growth, income, a combination of capital growth and income, or capital preservation as stated in its constituting document and offering document.

Investment policy - the policy of a collective investment scheme to achieve its investment objective specified as levels of exposure to particular asset classes, geographical regions, sectors of the economy or institutions as stated in its constituting document and offering document.

Islamic scheme – a collective investment scheme that is managed by a CIS manager (the Mudarib) that is an Islamic institution and that operates and invests in conformity with Shari’a requirements.

Issuer – A legal entity (in public or private law) or a collective investment scheme that issues or proposes to issue any traded security to the general public.

Key information document – abbreviated CIS prospectus as defined in Annex 1 (*Note: this follows the European standard - the UCITS Directive requires a ‘key investor information*

document’ which is essentially a short form prospectus with key information only, which is more likely to be read by unitholders than full prospectuses.)

Law – in this Regulation, Law 706 unless otherwise stated.

Mid-market basis - the mid-market value of a security between the bid price and the offer price.

Money market collective investment scheme (‘money market scheme’) (or money market sub-fund) - an open ended scheme (or sub-fund) whose primary objective must be to maintain the net asset value of the scheme (or sub-fund) at the value of the unitholders’ initial capital plus earnings.

Money market instrument - a debt security that gives the owner the unconditional right to receive a stated, fixed sum of money on a specified date and is issued at a discount dependent upon the interest rate and the time remaining to maturity including treasury bills, commercial and financial paper, bankers’ acceptances and negotiable certificates of deposit with original maturities of one year or less, and short-term notes issued under note issuance facilities.

Mutual fund – as defined in Article 4 of Law 706.

Net asset value - the aggregate value of the assets of a collective investment scheme (or sub-fund) less the total amount of the liabilities of that collective investment scheme (or sub-fund) at the time of the calculation.

Net asset value per unit - the net asset value of the collective investment scheme (or sub-fund) divided by the number of units in issue in the scheme (or sub-fund) at the time of the calculation of the net asset value.

Offering document – document setting out the terms of the offer of a collective investment scheme including a CIS prospectus.

Open ended collective investment scheme (‘open ended scheme’) – a collective investment scheme that is obliged to redeem its units from holders upon their request at a price related to net asset value of the scheme property not less frequently than twice a month at regular intervals.

Operational expense ratio (“OER”) - the total annual expenses of a collective investment scheme (or sub-fund), that are all costs paid out of the scheme (or sub-fund) in the most recent audited financial year excluding only taxes and costs directly associated with the acquisition and disposal of scheme property (or sub-fund property), expressed as a percentage of the scheme’s (or sub-fund’s) average net asset value for that year. (*Note: calculation information is given in Annex 2.*)

Professional client – a client that is one of:

- 1) a *Lebanese collective investment scheme, pension fund or any other institution whose main activity is to invest in securities and financial products,*
- 2) a *foreign collective investment scheme or pension fund that is properly licensed in its home country,*

- 3) a government, government agency or public authority of any country,
- 4) a joint stock company or an individual client that an approved institution has determined, after making and documenting due enquiries,
 - i) has net investible assets equal of a value of at least \$US 500,000; “Net investible assets” means the client’s holdings of cash and securities, net of any amounts owing on loans made for investment purposes, and
 - ii) has a minimum of 5 years of continuous experience investing in securities markets and investments.

Public offer – offer of securities to the public as defined in the Offers of Securities Regulation.

Real estate – land or buildings

Recognized collective investment scheme (‘recognized scheme’) – a collective investment scheme created in a foreign jurisdiction and approved by the regulator in that jurisdiction for public offer that is recognized by the Authority as offering equivalent investor protection to Law 706 and the Regulation and that is eligible for public offer in Lebanon.

Redemption – the repurchase of a unit in an open ended scheme (or sub-fund) or interval scheme (or sub-fund) upon the request of the holder.

Redemption charge - the fee that may be charged to the holder of units in a scheme (or sub-fund) by the CIS manager upon the redemption of those units.

Regulations – the implementing Regulations of the Authority, as approved by the Board of the Authority and amended from time to time.

Scheme property – the assets of the scheme.

Securities exchange – a market, trading platform, place, electronic or information system that systematically consolidates purchase and sale orders for, and processes transactions in, securities of a listed issuer or commodities.

Securities advertisement – any form of verbal, electronic, broadcast or written communication made in the course of business for the purpose of inviting or inducing a person to engage in securities activity.

Securities business - is defined in Article 2104 of the Licensing and Registrations Regulation.

Security or securities – except in Part B of the Market Conduct Regulation, means any of the following types of financial instruments:

- 1) Shares, debt securities or units issued by a public or private company or entity, or a collective investment scheme,
- 2) Bonds, notes, certificates of deposit, depositary receipts and Treasury bills and bonds,
- 3) Financial rights, options, futures and any other derivatives or structured financial products, and

- 4) *Other financial instruments authorized by the Authority or the Regulations, except an instrument specifically excluded by the Law.*

Sub-fund - a separate part of the scheme property of an umbrella scheme that is pooled, managed and accounted for separately.

Sub-fund property - the assets of a sub-fund which are beneficially owned by the unitholders in that sub-fund.

Subscription – purchase of units in a scheme (or sub-fund).

Subscription charge - the fee that may be charged to the purchaser of units in a scheme (or sub-fund) by the CIS manager upon subscription for units.

Total return – returns earned both by the capital property and the income property of a scheme (or sub-fund).

Umbrella collective investment scheme (‘umbrella scheme’) – an open ended scheme or interval scheme which, to the extent as may be approved and subject to such conditions as may be applied by the Authority or a foreign equivalent may be divided into a number of sub-funds in which unitholders are entitled to exchange rights in one sub-fund for rights in another. Where each part of the scheme property is segregated in the books of the umbrella scheme and is a sub-fund:

- (a) The property subject to the sub-fund is owned by the unitholders in that sub-fund and must not be used to meet the liabilities of the unitholders in any other sub-fund;
- (b) Any liability of the unitholders in the sub-fund arising from the purchase, management or sale of the property subject to the sub-fund must be met solely out of that property;
- (c) A unitholder in the umbrella scheme must not be liable for debts arising from the purchase, management or sale of the property subject to a sub-fund in which the unitholder has participations beyond the amount which, at the time when any debts are due to be paid, is equal to the value at that time of the unitholder’s units in that sub-fund;
- (d) The CIS manager (but no other person) of the sub-fund may on behalf of unitholders in a sub-fund take and defend proceedings for the resolution of any matter relating to an authorized contract and take action in relation to the enforcement of any judgment given in such proceedings;
- (e) The Authority may exercise its powers in relation to a sub-fund as if that sub-fund were a stand-alone scheme.

Unit – right, participation or interest entitling the holder to a proportionate part of the property of a collective investment scheme (or sub-fund). Fractional units may be issued.

Unitholder - a person who holds units in a collective investment scheme (or sub-fund).

Unit class – a group of units in a scheme (or sub-fund) differentiated from another group of units in the same scheme (or sub-fund) either by its charging structure or by the currency in which it is denominated.

Unit price – the single price at which a unit in a scheme (or sub-fund) may be purchased or redeemed on any one dealing day based on the mid-market basis valuation of the portfolio².

Written notification - notification in a letter or other communication on paper or by electronic means.

² This wording will need adjustment if a ‘swinging’ single price allowing for dealing costs is to be permitted instead or in addition

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Part A – Introduction

8101. Purpose

- (1) The purpose of this Regulation is to regulate the establishment, approval, offering and management of collective investment schemes and associated activities in Lebanon and to establish requirements governing CIS managers, CIS custodians and approved distribution agents.

8102. Principles

- (1) Any person who offers or holds themselves out as offering units in a collective investment scheme in Lebanon and any person who wishes to establish a collective investment scheme in Lebanon must comply with this Regulation.
- (2) Any person who establishes, offers and manages a collective investment scheme in Lebanon must be an approved institution to undertake that activity under the Licensing and Registrations Regulation and this Regulation (CIS manager).
- (3) Any person who offers to deal in units of a foreign scheme in Lebanon must be an approved institution to undertake that activity under the Licensing and Registration Regulation (approved distribution agent).
- (4) Only a collective investment scheme that is an approved scheme or a recognized scheme is permitted to be publicly offered in Lebanon.
- (5) Any person who offers or holds themselves out as offering to provide custodial services to a collective investment scheme established in Lebanon must be an approved institution to undertake that activity under the Licensing and Registration Regulation and this Regulation or a specialized department of Midclear (CIS custodian).

Part B – General requirements

8201. Compliance with the Regulation

- (1) A collective investment scheme must only be established, offered and operated in Lebanon in accordance with Law 706, Law 161 and this Regulation.
- (2) A foreign collective scheme must only be offered in Lebanon in accordance with Law 706, Law 161 and this Regulation³.

8202. Fees

- (1) The application and notification fees and annual fees payable in relation to collective investment schemes offered in Lebanon shall be prescribed by the Authority.

³ Separate provisions are required since a foreign scheme is not established or operated in Lebanon but offer of foreign schemes without CMA approval or notification needs to be prevented.

8203. Duty to provide information

- (1) The CIS manager and CIS custodian and the approved distribution agent of a collective investment scheme offered in Lebanon must deal with the Authority in relation to the scheme in an open and cooperative way and disclose to the Authority any information relating to a scheme that the Authority needs to know in order to carry out its responsibilities in a timely, accurate and complete manner⁴.
- (2) The CIS manager and CIS custodian of a collective investment scheme established in Lebanon, and any entity to which they have delegated activities, must promptly and accurately disclose to each other the information necessary to ensure that obligations to unitholders in a scheme under Law 706, this Regulation and the CIS statute and CIS prospectus of the scheme are properly fulfilled.

8204. Register of collective investment schemes

- (1) The Authority shall maintain a register of all collective investment schemes offered in Lebanon. The register shall include the name of each scheme and such information as the Authority decides to include from time to time.
- (2) The Authority shall publish a list of names of approved schemes and recognized schemes on its website.

Part C – Management of approved and exempt offer schemes**8301. Scope and application of this Part**

- (1) This Part applies to approved schemes and exempt offer schemes in Lebanon.

8302. Eligibility requirement

- (1) Only an approved institution licensed by the Authority to carry out the activity of managing collective investment schemes (CIS manager) is permitted to establish, manage and offer a collective investment scheme in Lebanon⁵.

8303. Duties of the CIS Manager

- (1) The CIS manager must at all times act for the benefit of unitholders and the collective investment scheme as a whole in accordance with Law 706, this Regulation and the constituting document and offering document of the scheme.
- (2) The CIS manager must act honestly, fairly, professionally and independently.
- (3) The CIS manager is responsible for the offering, management and operation of the collective investment scheme.

⁴ This places the CIS Manager and CIS Custodian under a general duty to disclose to the Authority whatever information is relevant to the Authority

⁵ This means that only an approved CIS manager can operate a scheme, whether for public or exempt offer, in Lebanon

- (4) The CIS manager is responsible for the preparation and content of a scheme's constituting document and offering document.
- (5) The CIS manager is responsible for the compliance of the collective investment scheme with Law 706, Law 161, this Regulation, the constituting document and the offering document of the scheme and any other applicable Regulation or requirement of the Authority and Lebanese law. The delegation of any activity by the CIS manager to another entity must not in any way limit or change the CIS manager's responsibilities under this Regulation.
- (6) Any provision in a constituting document or offering document that seeks to limit, reduce or change any responsibility of the CIS manager under this Regulation is null and void.
- (7) The CIS manager is financially responsible to unitholders for losses in a scheme or sub-fund resulting from errors or omissions of the CIS manager or any entity it has delegated an activity to.
- (8) The CIS manager must instruct the CIS custodian in writing on the exercise of rights attaching to scheme property.

8304. Maintenance of books and records

- (1) The CIS manager must maintain records of all units created and cancelled for each scheme and sub-fund and must maintain a complete, accurate and up to date record of all outstanding units.
- (2) The CIS manager must create and maintain accurate and up to date records for each collective investment scheme and sub-fund as are necessary to enable the CIS manager to comply with Law 706, Law 161 and this Regulation and the constituting document and offering document of the scheme and sub-fund and any other applicable Lebanese law or regulation to demonstrate that it and the scheme that it acts for are in compliance (CIS records).
- (3) The Authority must be able to readily access such records.
- (4) The CIS records must include all corrections or other amendments made, and the contents of the records prior to any corrections or amendments must be easily ascertained. It must not be possible to otherwise alter the records.
- (5) The CIS records must be kept for a minimum of ten years.

8305. CIS audited report and accounts

- (1) The CIS manager must prepare an annual financial statement for a scheme and for a sub-fund and ensure the statements are audited by a member of the Association of Certified Public Accountants in Lebanon that is acceptable to the Authority to audit approved institutions and the financial statements must be prepared in accordance with applicable standards.

- (2) The audited CIS annual report and accounts must be approved by the CIS manager and signed by two directors of the CIS manager.
- (3) The financial statement must cover the calendar year to 31 December and a copy of the financial statement and CIS annual report and accounts must be filed with the Authority by 31 March of the next year⁶ and sent to all unitholders in the scheme as at 31 December of the reporting year.
- (4) The audited CIS annual report and accounts⁷ must give a true and fair view of the financial position of a collective investment scheme and where relevant each sub-fund for each annual accounting period and must contain:
- i) Reports from the CIS manager and CIS custodian and auditor summarizing their duties and reporting on their fulfilment of these; and
 - ii) A balance sheet or statement of assets and liabilities and any off balance sheet commitments of the scheme⁸; and
 - iii) A statement of total return including a detailed profit and loss account of the scheme for the period; and
 - iv) A report on the activities in the period⁹; and
 - v) For an open ended scheme or interval scheme, a statement of movement of holders' assets¹⁰; and
 - vi) Any other information that may be prescribed by this Regulation; and
 - vii) Any significant information that enables unitholders to make an informed judgement on the activities and investments and performance of the collective investment scheme or sub-fund.

8306. Register of unitholders¹¹

- (1) The CIS manager must establish a register of unitholders (the CIS register) of the scheme or sub-fund and maintain it in Lebanon and ensure it is accurate and up to date.
- (2) The CIS register of a closed ended scheme must be held by Midclear if the scheme is listed on a securities exchange and is subject to the requirements of Midclear and the

⁶ Required by Article 40 of Law 706 for public funds and here applied to all schemes established in Lebanon

⁷ Article 40 of Law 706 also requires the financial position of the manager, the previous year's activities for the manager and the profit and loss of the manager. Normal practice is for these to be disclosed to the regulator as a condition of the manager's licence, only so these are not give here

⁸ This is the financial position as in Article 40 of Law 706

⁹ The previous year's activities as in Article 40 of Law 706

¹⁰ A standard requirement for open ended funds not present in Law 706

¹¹ This requirement relates specifically to the register of holders whereas 8304 refers to record-keeping in general; it is usual to set out requirements for each separately since specific requirements are needed in relation to the register that are not needed for general records needed to demonstrate compliance with regulation

Listing Regulation. Sub-articles (5) and (6) do not apply to the CIS register of a scheme that is listed whose register is held at Midclear.

- (3) The CIS register is the conclusive evidence as to the persons entitled to units entered on the register.
- (4) The CIS manager must ensure that the following information is recorded in the CIS register:
 - i) The name and address of each unitholder; and
 - ii) The national identification number or passport number or company registration number of the unitholder where applicable; and
 - iii) The nationality of the unitholder; and
 - iv) The number of units of each unit class including fractional units held by each unitholder; and
 - v) The date on which the unitholder was registered for the units standing to their name; and
 - vi) The number of units of each unit class in issue.
- (5) A unitholder is entitled to transfer units held on the register by an instrument of transfer in such form as the CIS manager requires but such transfer is not valid unless it complies with the requirements of the CIS manager.
- (6) An extract from the CIS register must be supplied by the CIS manager to any unitholder upon request, showing only information for that unitholder.
- (7) The CIS register must be made available for inspection by the Authority on request.

8307. Conflicts of interest

- (1) A CIS manager and any entity that it delegates any activity to must not engage in any action that involves a material conflict of interest between that CIS manager and that entity and the interests of any collective investment scheme it manages or for which it acts, subject to (3).
- (2) A CIS manager and any entity that it delegates any activity to must not engage in any action that involves a material conflict of interest between one collective investment scheme or sub-fund that it manages or acts for and another collective investment scheme or sub-fund that it manages or acts for, subject to (3).

- (3) A CIS manager and any entity to which it delegates an activity¹² must not profit by its office except through the payment of remuneration permitted under this Regulation and disclosed in the offering document.
- (4) An associate¹³ of a CIS manager must not derive any benefit from the offering, operation or management of a collective investment scheme operated by that CIS manager other than any fee or charge due that is disclosed in the offering document or any profit made on investment in units¹⁴.

8308. Investment policies and practices

- (1) The investment decisions of the CIS manager of a scheme or sub-fund must at all times other than during any initial offer period provide a prudent spread of risk and must conform to the stated investment objective and the investment policy set out in the constituting document and offering document of the scheme or sub-fund.
- (2) In the case of an open ended scheme or an interval scheme, the investments of the scheme must be sufficiently liquid to meet anticipated redemption requests.

8309. Investment in a CIS by the CIS manager

- (1) A CIS manager of a scheme must not invest in units of a scheme under its management unless the following conditions are met:
 - i) This intention is fully and prominently disclosed in the CIS prospectus; and
 - ii) The terms of the investment and the rights attaching to the units acquired must be no more favorable than those of other unitholders; and
 - iii) The CIS manager must not be entitled to vote the units that they hold; and
 - iv) The CIS manager of an approved scheme must only subscribe for units in money and any units purchased must be fully paid up¹⁵.

8310. Delegation by the CIS manager

- (1) A CIS manager may delegate an activity for which it is responsible to a third party. The remuneration of that party¹⁶ must be paid out of the remuneration received by the CIS manager¹⁷.

¹² Including any investment adviser appointed by the CIS manager (that is, a person appointed to advise on or select investments for the scheme or sub-fund)

¹³ An associate includes any entity that is a controller or has close links with the entity so would include an affiliated investment adviser and broker

¹⁴ Article 14 of Law 706 refers to the fund buying shares issued by the CIS manager which is the reverse of this transaction: refer article 8511

¹⁵ The provision requiring subscription in money prevents the CIS manager exchanging assets – that can easily be overvalued – for units in the fund; however, this would prevent ‘carried interest’ and contribution in kind for exempt offer schemes so has not been applied to these; it may be necessary to exempt an Islamic scheme from this.

¹⁶ This would include an investment adviser appointed by the CIS manager to advise on or select investments for the CIS

¹⁷ This is because the annual management fee is paid to the CIS manager to provide investment management

- (2) Any delegation must be detailed in a written contract between the parties that clearly states the remuneration payable and the terms of the contract.
- (3) If delegation is of a regulated activity under Law 706, Law 161 or this Regulation the activity may only be delegated to an approved institution or to an entity holding an equivalent foreign approval under an equivalent foreign law and the Authority shall have discretion to assess such equivalence.

8311. Fees and charges

- (1) A fee or charge or any other payment whether in money or otherwise must only be made to the CIS manager or its associates from a scheme or sub-fund if:
 - i) The nature, amount and method of application of that fee, charge or payment and how it is levied is clearly disclosed in the scheme or sub-fund's offering document; and
 - ii) The fee, charge or payment is made in accordance with the offering document and within the limits stated.

8312. Power of the Authority to remove and replace the CIS manager

- (1) The Authority shall have the power to remove a CIS manager of a scheme and to appoint a replacement CIS manager for that scheme or to take any other steps necessary when the CIS manager ceases to meet the requirements of Law 706 Article 16 sub-article d including in the event of¹⁸:
 - i) The CIS manager ceasing to carry on securities business without notification to the Authority¹⁹;
 - ii) The CIS manager entering bankruptcy or liquidation procedures;
 - iii) The suspension or cancellation by the Authority of the license of the CIS manager;
 - iv) A request by the CIS manager to cancel its license;
 - v) The CIS manager failing to fulfil its obligations in compliance with this Regulation in a material way;
 - vi) A special resolution to remove the CIS manager being passed by the unitholders of the scheme.
- (2) In the case that the Authority exercises its powers under (1), the CIS manager being replaced must facilitate a smooth transfer of responsibilities to the replacement CIS

¹⁸ This requirement relates to the ability of the regulator to **replace** a CIS manager; the regulator's ability to remove the license of a CIS manager is covered in the Licensing and Registration Regulation

¹⁹ Immediate action is required in this case otherwise no services would be provided to the scheme and investors would suffer

manager within [sixty] days and must novate²⁰ all contracts to the replacement CIS manager.

- (3) If a CIS manager is removed pursuant to (1), it must cease to make investment decisions for the scheme as soon as the replacement CIS manager is appointed or at any earlier time required by the Authority.

8313. Scheme offering document²¹

- (1) The offering document of a scheme must:
- i) Be fair, clear and not misleading;
 - ii) Clearly state the investment objective and investment policy of the scheme and the investment and borrowing and leverage limits of the scheme;
 - iii) Clearly state the legal structure of the scheme and the rights of holders of units in the scheme;
 - iv) Clearly state the valuation policy, pricing policy and dealing policy of the scheme.

Part D – Custody of approved and exempt offer schemes

8401. Scope and application

- (1) This Part applies to approved schemes and exempt offer schemes created under Lebanese law.

8402. Appointment of CIS Custodian

- (1) The CIS manager must appoint a CIS custodian to take into custody all securities and title to real estate held by a scheme and exercise control over all payments made by or to the scheme²².
- (2) The CIS manager must appoint the CIS custodian by a written contract.
- (3) The CIS custodian must be an approved institution approved by the Authority to undertake this activity or a specialized department of Midclear.
- (4) The CIS custodian must be functionally independent of the CIS manager of the scheme.

²⁰ This is a precise legal term whereby a new contract replaces an old contract and the new contract extinguishes all the rights and obligations under the old contract

²¹ This Part applies to both approved and exempt offer schemes so only a general requirement is given with more specific requirements under Parts E and F. Regulatory approval is required for the document under Part E which applies to publicly offered funds only; the regulator would not be ‘approving’ exempt offer schemes

²² This wording seeks to ensure that the CIS custodian holds or has control over all fund assets in line with international standards since it is understood that Midclear cannot hold cash in custody for collective investment schemes to which it provides custody.

- (5) The entity that is the CIS custodian to a scheme must not be the same legal entity as the CIS manager of the scheme.

8403. Duties of the CIS Custodian²³

- (1) The CIS custodian must act honestly, fairly, professionally and independently and in the best interests of unitholders in the scheme.
- (2) The CIS custodian holds all securities of a scheme and title to real estate beneficially for its unitholders and either beneficially holds or exercises control over the money and deposits held by a scheme.
- (3) The assets of a scheme (or sub-fund) must be segregated from those of the CIS manager, the CIS custodian and the CIS custodian's other clients, and held in the name of the scheme (or sub-fund).
- (4) The CIS custodian is responsible for taking all actions necessary to safeguard and administer all the assets of the scheme (or sub-fund) in the interests of its unitholders.
- (5) The CIS custodian must monitor that the scheme (or sub-fund)'s investments and borrowing and leverage comply with Law 706 and this Regulation.
- (6) The CIS custodian must monitor that the subscription and the redemption of units in the scheme (or sub-fund) are in accordance with this Regulation and the constituting document and offering document of the scheme (or sub-fund).
- (7) The CIS custodian must ensure that the net asset value per unit is calculated in accordance with this Regulation and the constituting document and offering document of the scheme (or sub-fund).
- (8) The CIS custodian must ensure that income due to the scheme (or sub-fund) is received by the scheme (or sub-fund) and is used according to the constituting document and offering document of the scheme (or sub-fund).
- (9) The CIS custodian must on the written instruction of the CIS manager specifying the number and value of units to be created or cancelled create and cancel those units. The CIS custodian must refuse to create or cancel units if it is of the opinion that such an action is not in the interests of unitholders²⁴ in that scheme (or sub-fund).
- (10) The CIS custodian must perform a reconciliation of its records of scheme property (or sub-fund property) and units in issue in the scheme (or sub-fund) with the CIS manager's records at least monthly for each scheme (or sub-fund). Any discrepancies in such reconciliation must be reported immediately to the Authority by the CIS custodian.

²³ The duties imposed here on the custodian of both publicly offered and exempt offer schemes established in Lebanon broadly follow the European standards set by the Undertakings in Collective Investment in Transferable Securities Directive and Alternative Investment Fund Managers Directive

²⁴ This is to enable the CIS Custodian to prevent units being sold at too low or too high a price that will disadvantage or advantage another group of unitholders

- (11) The CIS custodian must execute the CIS manager's instructions in relation to scheme property (or sub-fund property) if they are consistent with this Regulation and the constituting document and offering document of the scheme (or sub-fund). If the CIS custodian is unable for technical reasons to prevent execution of instructions that are inconsistent with this Regulation or the constituting document or offering document of the scheme (or sub-fund) the CIS custodian must require the CIS manager to reverse the transaction at the cost of the CIS manager. If the CIS manager fails to reverse the transaction as requested within the deadline set, the CIS custodian must give written notification of this to the Authority immediately.
- (12) The CIS custodian must maintain accurate and up to date records for each scheme (and sub-fund) as necessary to enable the CIS custodian to comply with Law 706, Law 161 and this Regulation and the constituting document and offering document of the scheme (and sub-fund) and to demonstrate that it and the scheme (and sub-fund) that it acts for are in compliance.
- (13) The records required to be kept by the CIS custodian must be retrievable and accessible to the Authority for the purposes of this Regulation. It must be possible to easily identify any corrections or other amendments to the records, and their contents prior to such corrections or amendments, and it must not be possible for the records to be otherwise manipulated or altered. Such records must be kept for a minimum of ten years.

8404. Delegation of custody

- (1) The CIS custodian may delegate the holding of assets of the scheme (or sub-fund) outside Lebanon to one or more sub-custodians who must be judged by the CIS custodian to be competent and to have the capacity to undertake that role.
- (2) The remuneration of any sub-custodian must be paid from the remuneration received by the CIS custodian.
- (3) Any delegation must be detailed in a written contract between the parties that clearly states the remuneration payable and the terms of the contract.
- (4) Sub-custody may only be delegated to an entity that is established, approved and supervised by a regulator equivalent to the Authority to undertake that activity in the country or territory covered by the contract.
- (5) Delegation of custody to a sub-custodian must ensure that the beneficial ownership of the assets of the scheme (or sub-fund) by the unitholders is clearly established and the CIS custodian is able to properly fulfil its duties in relation to safekeeping of the assets of the scheme (or sub-fund).

8405. Responsibility for scheme property

- (1) The CIS custodian is financially responsible to unitholders for losses in a scheme (or sub-fund) resulting from errors or omissions of the CIS custodian or of any entity to which it has delegated any activity for which it is responsible.

8406. Property in an insolvency

- (1) The property of a collective investment scheme must not, for the purposes of insolvency, be treated as property of the CIS custodian or any of its associates.
- (2) No creditor of the CIS custodian of a collective investment scheme other than a unitholder in that scheme shall have any claim against the scheme's property.

8407. Fees and charges

- (1) A fee or charge or any other payment whether in money or otherwise must only be made to the CIS custodian from a scheme (or sub-fund) if:
 - i) The nature, amount and method of application of that fee, charge or payment and how it is levied is clearly disclosed in the offering document of the scheme (or sub-fund); and
 - ii) The fee, charge or payment is made in accordance with the offering document and is within the limits stated.

8408. Power of the Authority to remove and replace CIS Custodian

- (1) The Authority shall have the power to remove a CIS custodian of a scheme and to appoint a replacement CIS custodian for that scheme or to take any other steps necessary when the CIS custodian ceases to meet the requirements of Law 706 Article 16 sub-article d including in the event of:
 - i) The CIS custodian ceasing to carry on securities business without notification to the Authority;
 - ii) The CIS custodian entering bankruptcy or liquidation procedures;
 - iii) The suspension or termination of the license to undertake securities business by the Authority;
 - iv) A request by the CIS custodian to cancel its license to undertake securities business;
 - v) The CIS custodian failing to fulfil its obligations in compliance with this Regulation in a material way.
- (2) Subject to (1), a CIS custodian must not cease provision of CIS custodian services to a scheme unless the CIS manager has appointed a replacement CIS custodian.
- (3) Where the Authority exercises any powers under sub-article (1), or the CIS manager appoints a replacement CIS custodian under sub-article (2), the CIS custodian being replaced must facilitate a smooth transfer of responsibilities to the replacement CIS custodian within sixty days.
- (4) If a replacement CIS custodian cannot be found, the scheme must be wound up.

8409. Removal of CIS custodian

- (1) The CIS manager of a scheme may remove the CIS custodian by giving at least sixty days' notice in writing to the CIS custodian.
- (2) The Authority must approve the appointment of a replacement CIS custodian by the CIS manager.

Part E – Requirements for approved schemes for public offer in Lebanon**8501. Application of Part**

- (1) This Part applies to all collective investment schemes for public offer established in Lebanon.

8502. Application to the Authority

- (1) Any person seeking to establish a collective investment scheme in Lebanon for public offer must submit an application to the Authority for approval for that scheme.
- (2) The applicant must be an approved institution approved by the Authority to manage collective investment schemes in Lebanon.
- (3) The application must contain the information required in Annex 1.
- (4) The application must state whether the collective investment scheme is to be offered only in Lebanon or also in other countries or territories outside Lebanon and in the latter case must name those countries or territories.
- (5) The application fee prescribed by the Authority must be paid.

8503. Process and powers of the Authority

- (1) The Authority will consider the application within forty days of receipt of all the information required in accordance with this Regulation²⁵.
- (2) In assessing an application for an approval the Authority may:
 - i) Carry out any review, enquiry or investigation that it considers appropriate.
 - ii) Inspect any office or premises of the applicant.
 - iii) Require the applicant, or any representative of the applicant, to explain any matter the Authority considers relevant to the application.
 - iv) Require the applicant to provide any additional information or documents that the Authority considers relevant.
 - v) Require the applicant to verify, certify or substantiate any information provided to the Authority.

²⁵ (5) requires the Authority to give written approval and 8102 (4) requires a scheme to be approved or recognised before it can be publicly offered in Lebanon

- (3) The Authority may refuse to consider an application if:
- i) It is incomplete.
 - ii) It does not meet the requirements prescribed by the Authority.
 - iii) The applicant has failed to provide information requested by the Authority, or has failed to provide information within a specified time.
 - iv) The required fee has not been paid.
- (4) After completing its consideration of an application, the Authority will make one of the following decisions:
- i) Approve the application in whole or in part.
 - ii) Approve the application subject to any conditions and limitations that the Authority considers appropriate.
 - iii) Refuse the application.
- (5) If the Authority decides to approve an application it must give written notification to the applicant, including any conditions and limitations on the approval set by the Authority.
- (6) If the Authority decides to refuse an application, it must give written notification to the applicant.

8504. Notification of addition of a sub-fund of an approved umbrella scheme

- (1) Units in a sub-fund of an umbrella scheme approved by the Authority are not permitted to be publicly offered in Lebanon unless:
- i) The CIS manager has given 30 days' advance notice of the addition of the sub-fund to the Authority; and
 - ii) The applicant has paid the fee prescribed by the Authority; and
 - iii) The Authority has not given the applicant written notice of any objection to such sub-fund within 30 days of receipt of the applicant's notice.

8505. Approval by the Authority

- (1) The Authority may approve a scheme only if the following requirements are met:
- i) The scheme is a mutual fund formed under Lebanese law.
 - ii) The applicant and the CIS custodian of the scheme are²⁶ not subject to disciplinary, legal, other investigations or proceedings of a nature that would cast doubt on their integrity.

²⁶ The requirement given here relates to the status of the applicants at the time of the application for a licence for a CIS; the later points cover their general reputation

- iii) The applicant and the CIS custodian of the scheme are not currently subject to any insolvency or liquidation proceedings, making any arrangement with creditors or the subject of a compulsory winding up.
- iv) There are no other factors that might cast doubt on the integrity, financial standing or professional qualifications of the applicant or CIS custodian or their key persons; the integrity or financial standing of the applicant's or CIS custodian's controllers or shareholders; or the capacity of the applicant or CIS custodian to meet the requirements of this Regulation.
- v) The name of the scheme is not undesirable and is not misleading.
- vi) If the terms 'guaranteed' or 'protected' or words with a similar meaning are used in the name of the scheme, the guarantee or protection is provided by a third party that is legally independent of the CIS manager and the CIS custodian and that has the authority and resources to honor that guarantee at any time.
- vii) In the case of an open ended or interval scheme, the unitholders are entitled to have units redeemed at a price based on the net asset value of those units to which a subscription charge may be added or from which a redemption charge may be deducted. For the purposes of this sub-article, the scheme complies with this requirement if its CIS statute requires the CIS manager to ensure that a unitholder is able to sell his units on a securities exchange at a price that is within one per cent of the current net asset value per unit.
- viii) In the case of a closed ended scheme, its CIS statute contains:
 - a) A commitment to become listed on a securities exchange in Lebanon approved by the Authority within six months of the closing of its initial public offering; or
 - b) A provision stating that the scheme is established for a limited period of time of not more than 5 years after which the scheme will be wound up and the proceeds distributed to unitholders;
 - c) If the scheme invests in real estate, a provision stating that the scheme will only invest in real estate outside Lebanon in countries whose sovereign foreign bonds are rated not lower than investment grade.
- ix) The CIS statute, CIS prospectus and any key information document comply with this Regulation and Annex 1.
- x) In the case of an umbrella scheme, that at least one sub-fund is established.
- xi) In the case of an Islamic scheme:
 - a) The CIS manager and CIS custodian are Shari'a compliant; and
 - b) The investment policy and investment objectives of the scheme have been certified as Shari'a compliant by an appropriate Lebanese authority and will be monitored as required by that authority as specified in the CIS statute of the scheme.

- xii) A member of the Association of Certified Public Accountants in Lebanon that is acceptable to the Authority to audit approved institutions has provided its written consent to act as auditor to the scheme.
- xiii) In the case of a closed ended scheme investing in real estate, the professional qualification and independence of the appointed independent expert is acceptable to the Authority.

8506. Power of the Authority to change approved status

- (1) The Authority may vary, suspend or cancel the approval of a collective investment scheme or employ any of the other powers available to it under Law 706 or Law 161 as is necessary for the protection of investors or upon the request of the CIS manager.

8507. Cancellation of approval

- (1) The Authority may cancel the approval of a CIS manager for persistent failure of one or more schemes under its management to comply with this Regulation²⁷.
- (2) A CIS manager or approved distribution agent may request the Authority to cancel the approval of a collective investment scheme by filing a written request to the Authority at least ninety days in advance of the proposed date of the cancellation.
- (3) A request to cancel an approval must state the reasons for the cancellation. It must also specify arrangements to protect the interests of the unitholders in the scheme concerned except where a scheme is being wound up upon the expiry of a fixed life as set out in the scheme's prospectus.
- (4) The Authority may require the CIS manager making a request to cancel an approval to:
 - i) Provide any additional information or documents that the Authority considers necessary, or
 - ii) Verify, certify or substantiate any information provided to the Authority.
- (5) After considering the request, the Authority may decide to:
 - i) Cancel the approval, or
 - ii) Delay or postpone the date of the cancellation pending further action.
- (6) In making a decision under sub article (5), the Authority may direct a CIS manager to take any action or measures that the Authority considers necessary for the protection of unitholders in the scheme.

²⁷ This refers to the annual fee payable for the approval or recognition; the application fee would be payable before an approval or recognition was granted by the Authority (refer Article 8202)

8508. Participation in an approved scheme

- (1) The terms and conditions of an approved scheme are established by the CIS statute of the scheme.
- (2) The CIS manager is responsible for preparation of and content of the CIS statute.
- (3) The CIS statute must, at a minimum, cover the information required in Annex 1.
- (4) A subscriber to a mutual fund signifies their acceptance of the terms of the CIS statute by the purchase of units in a scheme²⁸.
- (5) A subscriber becomes the owner of units in the scheme when the scheme account has received payment for the units from that subscriber.
- (6) A unitholder is entitled to exercise all rights in his units including, but not limited to, the right to vote at extraordinary general meetings.
- (7) The CIS statute must state that liability of a unitholder is limited to the amount of the net asset value per unit at the relevant time.
- (8) The CIS statute must state if the fund has a finite or infinite life and, if finite, the duration.
- (9) The CIS statute must state if the fund is an Islamic scheme, an open ended scheme, an interval scheme or a closed ended scheme.
- (10) If the scheme is an Islamic scheme, the CIS statute must state the Islamic authority to the scheme and the procedures to be followed if a profit does not comply with the Islamic Law.
- (11) The CIS statute of an open ended scheme or interval scheme must specify if fractions of units in that scheme are issued and if income units and/or accumulation units are issued.
- (12) The CIS statute must specify if different classes of units are issued in an open ended scheme or interval scheme or in a sub-fund of an open ended umbrella scheme or interval umbrella scheme. The CIS statute must not specify a unit class if that class:
 - i) Would result in that unit class disadvantaging holders of other unit classes in the same sub-fund or scheme, or
 - ii) Has a structure or effect that cannot be clearly explained to a member of the public, or
 - iii) Is contrary to the purpose of any of Parts A, B, C, D and E of this Regulation.

²⁸ Refer Article 5 section 3 of Law 706

- (13) The CIS statute must specify if unit classes of an open ended scheme or interval scheme or sub-fund include classes with:
- i) Different subscription charges, annual management charges or redemption charges, stating these differences.
 - ii) Different currency classes whereby the unit price is expressed as the foreign currency equivalent of the price of the unit in the base currency of the scheme and where purchase and sale of units and payment of investment returns is made in the same foreign currency.
- (14) The CIS statute of an open ended scheme or interval scheme must state that there is no obligation to redeem a unit if payment for that unit has not been received.
- (15) The CIS statute must state that:
- i) The unitholders may request the convening of an extraordinary general meeting by filing with the CIS manager a document signed by unitholders who, at that date, are registered as the unitholders of units representing at least 10% (or a lower proportion if so stated in the CIS statute) of the value of all the issued units of the scheme or sub-fund. The document must be dated and state the objects of the meeting.
 - ii) On receipt of such a request, the CIS manager must issue notification of an extraordinary general meeting of the scheme or sub-fund within 10 days of receipt of the request.

8509. Permitted fees and expenses

- (1) Only the CIS manager of a scheme may impose a charge on a subscriber or a unitholder for subscription or redemption of units. The charge may be a stated amount or a percentage of net asset value per unit. A subscription charge and a redemption charge must not be levied on any one unit or unit class.
- (2) The only payments that are permitted to be made from scheme property (or sub-fund property) are those for:
 - i) The cost of dealing in scheme property (or sub-fund property) including brokerage commissions and any directly associated legal costs;
 - ii) The cost of borrowing by the scheme (or sub-fund);
 - iii) The annual management charge payable to the CIS manager for management of the scheme (or sub-fund);
 - iv) The fees and expenses levied by the CIS custodian to the scheme (or sub-fund);
 - v) The fees and expenses of the auditor to the scheme (or sub-fund);
 - vi) The fees and expenses of the appointed independent expert, if any;

- vii) The cost of maintaining the CIS register, of payment of investment returns to unitholders, of publication of the scheme's reports and accounts; and of calling and conducting unitholder meetings for the scheme (or sub-fund);
 - viii) The fees payable to the Authority for the approval and ongoing supervision of the scheme (or sub-fund);
 - ix) In the case of an Islamic scheme (or sub-fund), any zakat payable as stated in the CIS statute and CIS prospectus;
 - x) Any taxation properly payable by the scheme (or sub-fund).
- (3) The total annual expense of operation of a scheme (or sub-fund) must be calculated as set out in Annex 2 and disclosed in the CIS annual report and accounts and the key information document of the scheme (or sub-fund).
- (4) The CIS manager of a scheme (or sub-fund) must not levy any charge on a subscriber or a unitholder when they subscribe for, hold or redeem units in a scheme (or sub-fund) unless that charge is clearly and prominently disclosed in the CIS prospectus of the scheme (or sub-fund).
- (5) The CIS manager must pay all the costs of establishment and offering a scheme (or sub-fund) from its own resources that must include the cost of preparation of the CIS statute and CIS prospectus and other materials required by the Authority for an application for an approval for a scheme (or sub-fund).
- (6) The payment of a performance-related fee by a scheme (or sub-fund) (other than the annual management charge in (2) iii)) to the CIS manager or any other party is not permitted except if a proportionately lower fee is charged on under-achievement of performance against that same benchmark.
- (7) No payment may be made out of scheme property (or sub-fund property) in relation to the cost of distribution or offering of units in a scheme (or sub-fund).
- (8) A CIS manager and a CIS custodian are not liable to account to unitholders in any scheme for any profits or benefits that are made or derived from or in connection with supply of services to the scheme.
- (9) The Authority has the right to establish limits on the types and levels of charges that may be applied to schemes.

8510. Payment of income and gains

- (1) The CIS manager is not obliged to pay investment returns (income or realized capital gains) to unitholders unless this obligation is stated in the CIS prospectus on an issue of income units.

8511. Investment powers

- (1) Scheme property must only be invested in accordance with this Regulation, the CIS statute and CIS prospectus and applicable laws. The Authority may take the decision when deemed necessary to temporarily or permanently dis-apply or vary the percentages stated in 8512, 8513 and 8514.
- (2) The CIS manager of a scheme must only invest in:
 - i) Securities or their equivalents under foreign law;
 - ii) Units in a collective investment scheme, schemes whose investments comply with articles 8511 to 8518²⁹ of this Regulation;
 - iii) Bank deposits;
 - iv) Real estate if the scheme is a closed ended scheme;and such investments must only be made in accordance with this Regulation.
- (3) The CIS manager of a scheme must not place scheme property on deposit with an associate unless such deposit is made upon terms and conditions equivalent to standard business terms between two un-related parties.
- (4) The CIS manager of a scheme must not invest scheme property in securities issued by the CIS manager or its associates unless this is specifically permitted by the CIS statute and CIS prospectus.
- (5) Personnel of a CIS manager must not simultaneously serve as directors or take up any other office in any other company the securities of which are held by any approved scheme under its management with the exception that they may serve as directors of the approved institution of which they are staff members.
- (6) The CIS manager must not lend scheme property to any person.
- (7) The CIS manager must not invest scheme property in any asset that would result in in the scheme assuming, guaranteeing, endorsing, or otherwise becoming directly or contingently liable for any obligation or any indebtedness of any person.
- (8) The CIS manager must not acquire for a scheme any asset that involves the assumption of any liability that is unlimited.
- (9) The CIS manager must not acquire for a scheme units in another collective investment scheme unless that scheme is an approved scheme or a publicly-offered scheme that is subject to similar regulation and oversight in a jurisdiction recognized by the Authority as offering equivalent investor protection to this Regulation.

²⁹ This is necessary due to the provisions of Article 38 of Law 706

- (10) The CIS manager must not invest in units of other collective investment schemes operated by the same CIS manager or its Associates unless this intention is prominently stated in its CIS prospectus.
- (11) The CIS manager must not place scheme property on deposit with an entity other than a commercial bank licensed by the Bank of Lebanon or a foreign bank with equivalent regulatory status whose issuance is not investment grade.
- (12) The CIS manager of a scheme must not make loans from the scheme other than by purchase of debt securities or by placing money in a current or deposit or term account.
- (13) The CIS manager of a scheme is only permitted to invest in a security where the potential loss that the scheme may incur in holding the security is limited to the amount paid for it.
- (14) The CIS manager of a scheme must not sell a security that the scheme does not own³⁰.
- (15) The CIS manager of a scheme must only enter into a transaction in derivatives or forward contracts on behalf of that scheme for the purposes of hedging currency risk. Each position must be covered either by money or by securities held by the scheme. An element of cover must not be used more than once. Not more than 100% of the net asset value of the scheme must be hedged.
- (16) The CIS manager of a scheme and its associates or any entity to which it delegates any activities and its associates must not act as principal for their own account or accounts when dealing on behalf of approved schemes under their management. This requirement does not apply to a money market scheme that holds a maximum of 15%³¹ of its net asset value in money market instruments of the approved institution that is the CIS manager and its associates.
- (17) A CIS manager must not permit an approved scheme to deal as a principal with any other scheme managed by the same CIS manager or with any unitholder holding more than 5% of a scheme's net asset value with the exception that a money market scheme may place deposits with the approved institution subject to article 8513.
- (18) A CIS manager must ensure to the best of its ability that title to real estate acquired by an approved scheme is sustainable in law and saleable and that the interest in such real estate is leasehold or freehold.
- (19) A CIS manager must not permit any real estate owned by an approved scheme to be leased to or rented by or used for any purpose by the CIS manager and or its associates or the CIS custodian and its associates.

³⁰ That is, it may not sell short (a standard requirement for publicly offered open ended and interval funds)

³¹ This limit must apply due to Article 36 of Law 706

- (20) A CIS manager shall ensure before any real estate is purchased for an approved scheme that the appointed independent expert has valued that real estate. The CIS manager must ensure that the purchase of real estate is made by way of enforceable contract within six months of the date of valuation of the real estate by the appointed independent expert and that price paid for that real estate is not more than 105% of the valuation by the appointed independent expert.
- (21) A CIS manager must ensure that at least 50% of the real estate constituting scheme property is occupied and income-producing.
- (22) A CIS manager shall ensure that a scheme (or sub-fund) only invests in assets in countries identified in the CIS prospectus of the scheme (or sub-fund).

8512. Permitted borrowing

- (1) The CIS manager must not borrow on behalf of an open ended scheme or interval scheme (or sub-fund) by any method (including issue of debentures) with the exception of borrowing of a maximum of 10%³² of the net asset value of the scheme (or sub-fund) for a maximum of eighty days by way of overdraft. Such borrowing must not be rolled-over, must only be used to meet redemptions and must not be used for investment or to finance payment of investment returns to unitholders.
- (2) The CIS manager must not borrow on behalf of a closed ended scheme (or sub-fund) more than a 20% of the net asset value of the scheme (or sub-fund). The nature and duration of such borrowing must be clearly stated in the CIS prospectus of the scheme (or sub-fund).
- (3) In the case of a closed ended scheme investing in real estate the CIS manager must ensure that not more than 60% of the value of any one piece of real estate is secured by mortgage. Any such mortgage must only be with a foreign bank with a credit rating which is not less than investment grade.

8513. Limits on investment exposures

- (1) The provisions of this article apply to all schemes and to each sub-fund of a scheme as if it were a scheme except they do not apply:
- i) during the initial fixed price offer period of a scheme under Article 8308 when all capital contributed and any interest earned must be held in a single bank account controlled by the CIS custodian;
 - ii) until the expiry of one year after the date of approval of the scheme or one year after the date of the initial offer commenced, if later³³.
- (2) At any time, not more than 15% of the net asset value of a scheme³⁴ is permitted to be invested in a specific class of securities of any one issuer or to be deposited with any one bank except that:

³² The present limit is 20% which is unusually high: the UCITS Directive requirement is 10%

³³ This allows the scheme a period to get invested but general diversification of risk requirements still apply.

³⁴ This limit derives from Article 36 of law 706 and is higher than European limits which would be 5% or 10%

- i) Up to 35% of its net asset value may be invested in any one issue of Lebanese government securities or government securities issued by G-10 countries³⁵ but only if this ability is prominently disclosed in the CIS prospectus.
 - ii) A scheme may only invest up to 15% of its net asset value in any one other scheme provided that that scheme is not a sub-fund within the same umbrella scheme as the investing scheme.
 - iii) A scheme is permitted to have an aggregate exposure of not more than 20% of its net asset value to the securities issued by any one issuer and its associates and deposits of that same body corporate and its associates.
 - iv) A scheme is permitted to invest up to 100% of its net asset value in government securities, subject to the following requirements³⁶:
 - a) The international credit rating of the issuance is investment grade; and
 - b) This intention is clearly disclosed in its CIS prospectus; and
 - c) At no time must such a scheme invest more than 35% of its net asset value in any one issue of such securities.
- (3) Not more than 15% in value of scheme property must be invested in any one real estate investment.

8514. Concentration of ownership in an issuer's securities

- (1) A CIS manager of a scheme must not acquire securities carrying a right to vote on any matter at a general meeting of that issuer that represent more than 15%³⁷ of its voting securities.
- (2) (1) applies to an umbrella scheme at the level of the umbrella scheme.
- (3) A scheme need not comply with the limit in (1) if, at the time of acquisition, the net amount in issue of the relevant investment cannot be calculated.

8515. Open ended and interval approved schemes

- (1) The CIS manager of an open ended scheme and an interval scheme must not invest on behalf of that scheme in:
 - i) Securities that are not transferable.
 - ii) Securities that cannot be sold for cash sufficiently quickly without a price discount that will compromise the ability of the scheme to meet its obligation to redeem units.

³⁵ This provision must apply due to Article 36 of law 706

³⁶ This enables a scheme investing purely in government bonds that is normal international practice

³⁷ The 15% limit derives from Law 706 so cannot be increased

- iii) Securities that cannot be reliably valued by reference to market prices made available by valuation systems independent of issuers or by reference to periodic valuations derived from information from the issuer or from competent investment research.
 - iv) Securities for which there is no regular, accurate or comprehensive information available to the market about those instruments or where there is no regular, accurate or comprehensive information available to the CIS manager on those instruments.
 - v) Securities that are not negotiable.
 - vi) Money market instruments that are not capable of being sold at a limited cost and at a price very closely related to their nominal value within 5 days.
 - vii) Corporate and government bonds that are rated below investment grade.
- (2) The CIS manager of an open ended scheme or interval scheme must only invest on behalf of that scheme in shares³⁸ that are listed or traded on a securities exchange regulated by the Authority³⁹ or on a securities exchange in a jurisdiction recognized by the Authority that is approved as a securities exchange by the regulatory authority of the country or territory concerned. The only exception is that, subject to the requirements of (1) and a clear statement of such a policy in the CIS prospectus, the CIS manager of an open ended scheme or an interval scheme may invest not more than 10% of the net asset value of that scheme in shares that are not listed or traded on a securities exchange.
- (3) An open ended scheme or interval scheme may only invest in a money market instrument that is freely transferable and the issuer of the instrument is⁴⁰:
- i) Regulated as a bank by the Bank of Lebanon and the issuance is investment grade; or
 - ii) Regulated as a bank in another country whose banking regulation offers equivalent investor protection to that offered by bank regulation in Lebanon and the issuance is investment grade; or
 - iii) A national or regional or municipal government and the issuance is investment grade; or
 - iv) A multilateral organization of which Lebanon is a member and the issuance is investment grade.

³⁸ This would allow OTC investment in bonds, subject to (1) and the other provisions of the investment section

³⁹ List to be developed

⁴⁰ It is possible that requirements for investment grade are not practicable within Lebanon but this requirement should be applied to non-Lebanese instruments

8516. Indexed scheme⁴¹ (or sub-fund)

- (1) A CIS manager of an indexed scheme must invest not less than 90% of its net asset value⁴² in constituent securities of a specified index. A specified index for the purposes of this article is an index that:
 - i) Is disclosed to and accessible by the public on a continuous basis; and
 - ii) Represents an adequate and appropriate benchmark for the securities market to which it refers, is clearly defined, and has a sufficiently diversified composition.

8517. Money market scheme (or sub-fund)

- (1) A CIS manager of a money market scheme must invest the net asset value of that scheme in debt securities, Mudaraba transactions and deposits provided that those securities are issued by an approved institution or government body and the issuance is investment grade or the counterparty to the transaction is an approved institution or government body and the issuance is investment grade.
- (2) A CIS manager of a money market scheme must not invest its capital in any instrument with a maturity or remaining maturity at acquisition of more than one year and not less than 50% of the value of the scheme must be invested in instruments with a maturity or remaining maturity at acquisition of ninety days or less.
- (3) A scheme that does not comply with (1) and (2) must not be named or described as a money market scheme or close equivalent.

8518. Fund of funds

- (1) A CIS manager of a fund of funds must invest at least 90% of the net asset value of that scheme in other collective investment schemes that are eligible for investment under articles 8511 – 8517 and up to 10% of the value of the scheme in deposits and money market instruments.
- (2) A fund of funds must not invest in another fund of funds.

8519. Breach of investment restrictions

- (1) If the provisions of articles 8511 – 8518, the CIS statute or the CIS prospectus of a scheme (or sub-fund) are breached due to an act of the CIS manager or any entity that it delegated portfolio management functions to, the CIS manager must immediately notify the Authority in writing setting out the steps to be taken to address the breach and the deadlines for completing such steps, and copy the notice to the CIS custodian.
- (2) If the provisions of Articles 8511 – 8518, the CIS statute or CIS prospectus of a scheme (or sub-fund) are breached due to circumstances outside the control of the CIS manager and the breach has not been rectified within five days, the CIS manager must

⁴¹ Normally an indexed scheme would be permitted to exceed the 15% exposure to any one issuer in article 8513, where this is necessary to replicate the relevant index but Law 706 prevents this alleviation being applied

⁴² It may also need to hold deposits for liquidity reasons

notify the Authority in writing, setting out the steps to be taken to address the breach and the deadline for rectification of the breach and copying this notification to the CIS custodian.

- (3) The CIS custodian⁴³ must keep a record of all breaches under (1) and (2) and must document the action taken and the timing of action taken to rectify the breach and must make this record available to the Authority upon request. The CIS custodian must notify the Authority if a breach under (1) or (2) has not been corrected within the stated deadline.

8520. Exercise of rights

- (1) The CIS custodian of a scheme (or sub-fund) must notify the CIS manager of any corporate actions arising in relation to any security held by the scheme (or sub-fund) in a timely and complete manner.
- (2) The CIS manager of a scheme must exercise any rights associated with any assets of the scheme (or sub-fund) or instruct the CIS custodian to this effect in the best interests of unitholders in that scheme or sub-fund.

8521. Requirements for the CIS Prospectus⁴⁴

- (1) The CIS manager of an approved scheme is responsible for the preparation and content of the CIS prospectus of the scheme.
- (2) A CIS prospectus must be prepared for each scheme and in the case of an umbrella scheme, must cover each of the sub-funds of that scheme.
- (3) The CIS prospectus must be clear, concise and understandable and must be in Arabic or English.
- (4) The CIS prospectus must contain the information necessary for potential unitholders to make an informed judgement regarding the scheme (or sub-fund) being offered to them, including the information required in Annex 1.
- (5) A CIS prospectus must be complete and accurate and up to date and in the case of an open ended scheme or an interval scheme must be updated annually in a timely manner with information on the operational expense ratio and performance from the previous audited year and for any other material change.
- (6) The CIS prospectus must contain a prominent statement of the scheme's approved status and the regulatory regime applying to the scheme and its CIS prospectus, and the date of the issue of the CIS prospectus.
- (7) The CIS prospectus must state that

⁴³ This would only apply to an approved institution in Lebanon acting as CIS custodian to an approved CIS (the ownership of that institution may be domestic or foreign)

⁴⁴ Requirements for provision of the CIS prospectus document and key information document are given in articles 8535 and 8536

“The Capital Market Authority does not accept any responsibility for the content of the information included in the offering documents including the accuracy or completeness of such information. The liability for the content of this prospectus lies with the CIS manager of the scheme. The Capital Markets Authority has also not assessed the suitability of the securities covered by the offering documents for any particular investor or type of investor.”

- (8) The CIS prospectus for a new scheme must contain details of any initial offer period during which units may only be offered at the initial price. The duration of any fixed offer period must not exceed twenty days⁴⁵. The CIS prospectus must state that during that period subscription monies will not be invested but will be held on deposit until the end of the fixed offer period.
- (9) The CIS prospectus for a new scheme must state the minimum subscription amount that must be raised from subscriptions to the scheme during any initial offer period which must not be less than \$US 10 million (or the current equivalent in another currency) and that no investment of subscription monies must take place until the completion of that initial offer period.
- (10) The CIS prospectus for a new scheme must state that if the minimum amount is not raised in the initial offer period, subscription monies must be returned to subscribers, plus any interest due, within five days from the last day of the initial offer period.
- (11) The CIS manager must file a CIS prospectus that has been amended with the Authority within ten days of the changes being made to the CIS prospectus.

8522. Approval of material changes

- (1) A CIS manager must notify the Authority of any proposed material change to an approved scheme (or sub-fund) and must only propose such a change to unitholders if the Authority has not objected to the proposed change within 15 days of receipt of notification of the proposed change.
- (2) A CIS manager must seek the approval of unitholders in the scheme or sub-fund or unit class to a material change to a scheme or sub-fund or unit class in an extraordinary general meeting⁴⁶ of holders of that scheme or sub-fund or unit class.
- (3) For the purposes of this Regulation, a material change to a collective investment scheme or sub-fund or unit class means:
 - i) A change to the purposes or nature of the scheme or sub-fund; or
 - ii) A change that is likely to have an adverse measurable effect on unitholders or a class of unitholders and their rights; or
 - iii) A change that alters the risk profile of the scheme or sub-fund; or

⁴⁵ ‘Days’ in the context of this Regulation are working days so this is a month

⁴⁶ See article 8533 for voting requirements

- iv) The introduction of any new type of payment out of scheme property other than taxation; or
 - v) In the case of a closed ended scheme with a fixed life, extension of that life; or
 - vi) An increase in the annual management charge above the limit disclosed in the CIS prospectus; or
 - vii) A change that affects unitholders' ability to exercise their rights in relation to their investment; or
 - viii) A change that would reasonably be expected to cause a unitholder to reconsider their investment in the scheme or sub-fund or unit class; or
 - ix) A change that results in any increased payments out of the scheme or sub-fund or unit class property to the CIS manager or an associate; or
 - x) A change that increases any other type of annual fee payable by scheme or sub-fund or unit class property in any one year by more than 5% above those stated in the CIS prospectus.
- (4) During the period between advising unitholders of the proposed change and approval or refusal of the change, an addendum must be added to the CIS prospectus describing the proposed change and identifying when the vote will take place.
- (5) Following approval of the change which is subject to Article 8533, the CIS prospectus must be updated and the next CIS annual report and accounts for the scheme must include information on the change and notification of the change made and copies of these documents must be provided to the Authority.

8523. Notification to the Authority and unitholders of other changes

- (1) The CIS manager of a scheme must notify the Authority in writing of any notifiable change to an approved scheme or sub-fund within ten days of the change taking effect.
- (2) For the purposes of this Regulation a notifiable change is any change that is not a material change⁴⁷.
- (3) The CIS prospectus must be updated for any notifiable change at the next annual review and the next annual report must contain information on the notifiable change.

⁴⁷ This would include a change of address of the CIS manager or CIS custodian, a change in the name of those organisations or their ownership (all of which would have to be disclosed to the Authority as changes in the status of the approved institution concerned but which fund investors need to be made aware of); a change in the name of the fund, a change of CIS custodian, a change in the time of the valuation point (although a change in frequency of valuation would be significant change since it affects ability to redeem)

8524. Notification of initial offer period outcome to the Authority

- (1) The CIS manager of a scheme that has completed its initial offer period must notify the Authority of the outcome of that subscription in writing the next day following the last day of the initial offer period.

8525. Subscription to and redemption from approved schemes

- (1) Subscription for a unit in an approved scheme must be in money⁴⁸ and be fully paid up.
- (2) Following the end of the initial offer period, units in an open ended scheme or interval scheme may be purchased on any dealing day⁴⁹.
- (3) Dealing must only take place in units of an open ended scheme or interval scheme if a net asset value per unit calculation has been undertaken at the valuation point required in in Article 8530.
- (4) Dealing in units of open ended schemes or sub-funds or unit classes or interval schemes or sub-funds or unit classes must be at the unit price calculated at the valuation point following receipt of a valid order⁵⁰.
- (5) Submission of requests for subscription and for redemption for an open ended scheme or an interval scheme must not be fulfilled unless they are received not less than two hours before the next valuation point; any orders received after that time must be fulfilled at the next following valuation point.
- (6) The CIS manager must meet subscription or redemption requests subject to any provisions of the CIS prospectus and Articles 8526 and 8527.
- (7) The CIS manager must pay redemption proceeds to the redeeming unitholder not later than the close of business on the fifth day following the valuation point at which the unit was redeemed.

8526. Limiting or deferring redemption of open ended and interval schemes

- (1) A CIS manager may defer fulfilling a request for redemption until the next dealing day if the total of all unitholders' redemption requests to be fulfilled on any one dealing day is 10% or more of the net asset value of the scheme or sub-fund subject to this ability being disclosed in the CIS prospectus with terms that ensure fair and equitable treatment of all redemption requests and procedures for deferral of requests.
- (2) A procedure for deferral of requests is deemed to be fair and equitable if it is pro rata to the proportion of the total redemption value requested.

⁴⁸ Not 'in specie' or in kind egg via transfer of a portfolio of securities

⁴⁹ The effect of (3) combined with (4) and (5) is that a dealing day (which is a day on which units can be sold and redeemed although orders for such transactions may be accepted on other days for future implementation) is not less than once every two weeks for an open ended approved scheme and not less than once a year for an approved interval scheme since that is the frequency with which they are required to calculate the net asset value per unit at which deals can be fulfilled

⁵⁰ That is, forward priced

8527. Suspension of subscription and redemption of units in open ended and interval schemes

- (1) The CIS manager of a scheme or sub-fund must suspend subscription and redemption of units if the Authority orders such suspension either for a definite or an indefinite period.
- (2) The CIS manager of a scheme or sub-fund may suspend redemption of units in a scheme or sub-fund only in the following circumstances:
 - i) If the subscription of units is also suspended; and
 - ii) If the CIS manager and the CIS custodian agree that such suspension is in the best interests of unitholders in that scheme or sub-fund; or
 - iii) Due to reasons beyond its control the CIS manager is unable to accurately value the assets of the scheme or sub-fund for the purposes of subscription and redemption.
- (3) In the case of any suspension under (2) the CIS manager must ensure that any suspension continues only for as long as it is necessary to protect the interests of unitholders, in agreement with the CIS custodian.
- (4) The CIS manager must inform the Authority and unitholders of any suspension of subscription and redemption of units as soon as possible after its commencement and inform the Authority and unitholders of any resumption within one day after it takes place.
- (5) The Authority has the power to require ending of such suspension if the Authority believes that to do so is in the best interests of unitholders.

8528. Securities advertisements and promotional materials⁵¹

- (1) A securities advertisement that is communicated to unitholders or potential unitholders in relation to an approved scheme or sub-fund must satisfy the requirements of this Article and the applicable provisions of the Licensing and Registration Regulation.
- (2) Any securities advertisement for a scheme or sub-fund must be consistent with the CIS prospectus for the scheme or sub-fund and must include information on:
 - i) How to obtain a copy of the scheme or sub-fund's CIS prospectus and key information document if available and most recent CIS annual report and accounts; and
 - ii) A statement that the value of units and the income from them can fall as well as rise and that investors may not get back the money they invested.
- (3) A securities advertisement for a scheme or sub-fund must not include:

⁵¹ These requirements are CIS specific but could be moved to the Securities Offering Regulation if wished

- i) A projection or prediction of total return or investment performance of the scheme or sub-fund or of a unit in the scheme or sub-fund.
 - ii) Any form of testimonial or endorsement by any party.
- (4) A CIS manager must maintain records of all securities advertisements it places in any media together with the dates of placement and the medium concerned and must provide a copy of any such advertisement to the Authority promptly upon its request.

8529. Performance of an approved scheme or sub-fund

- (1) No reference to the performance of the value of a scheme or sub-fund or a unit in a scheme or sub-fund may be made in any media by a CIS manager unless it complies with the requirements of this Article.
- (2) Any reference to the growth in net asset value per unit of a scheme or a sub-fund (or schemes or sub-funds) or to the income produced by a unit in a scheme or sub-fund (or schemes or sub-funds) must comply with the following requirements:
- i) Total return must be stated net of any subscription charge and of any redemption charge and of annual expenses paid out of the scheme or sub-fund with the exception of taxation paid by the scheme.
 - ii) The subscription charge, the operational expense ratio and any redemption charge of the scheme or sub-fund must be stated prominently as a percentage of the net asset value of the unit.
 - iii) Total return must be presented in comparison with the benchmark or index disclosed in the CIS prospectus of the scheme or sub-fund concerned and must state whether costs are or are not included in that benchmark or index. If the index or benchmark does not include all elements of total return, the advertisement must disclose what elements of return are not included in the benchmark or index and how that omission affects the comparison of the scheme's total return with the benchmark or index.
 - iv) Total return for a scheme or sub-fund must be shown discretely for one, three, five and ten years but no returns may be shown for a period of less than one year.
 - v) Total return for a scheme must be current to the end of the most recent quarter of the calendar year or more recent.
 - vi) The source of total return data must be clearly stated. If the source is not an information provider that is independent of the CIS manager then a statement to this effect should be prominent.
 - vii) If the performance information shown may be misleading to potential unitholders in any way, an explanation of the information must be included.

8530. Valuation and pricing of approved scheme and sub-fund units

- (1) The CIS manager is responsible for valuation of a scheme and a sub-fund and the calculation of the net asset value of units in a scheme or a sub-fund.
- (2) The CIS manager of a closed ended scheme must calculate the net asset value per unit at the frequency stated in the CIS prospectus which shall be at least twice a year at regular intervals. The net asset value per unit shall be published immediately following its calculation on the website of the CIS manager. The valuation of real estate held by a closed ended scheme shall be undertaken by the appointed independent expert to the scheme.
- (3) Calculation of the net asset value of a unit and the price of a unit must take place:
 - i) For an open ended scheme, at the valuation point⁵² and at the frequency⁵³ stated in the CIS prospectus which must be at least once every two weeks at regular intervals.
 - ii) For an interval scheme, at the valuation point and at the frequency stated in the CIS prospectus which must be not less than four times per year at regular intervals.
- (4) The CIS prospectus of the scheme or sub-fund must state the method and basis for the calculation of the net asset value per unit that must be agreed with the CIS custodian. This basis must comply with the requirements of Annex 1.
- (5) The CIS manager of an open ended scheme or an interval scheme (or sub-fund) is responsible for calculating the price at which units may be subscribed or redeemed. The price of units on any dealing day must be net asset value per unit based on the mid-price valuation plus dealing costs of the assets of the scheme, plus a charge for subscription or less a charge for redemption. The unit price is permitted to swing up to the market offer price valuation basis when the scheme or sub-fund is selling more units than it is redeeming and to swing down to the market bid price valuation basis when the scheme or sub-fund is redeeming more units than it is selling.
- (6) Unit prices must be expressed to four decimal places.
- (7) The CIS manager and the CIS custodian must record each instance where an asset or a liability of a scheme or sub-fund is valued incorrectly or the price per unit is incorrect. This record must be made available to the Authority upon request.
- (8) If the unit price is incorrect by more than 1%, the CIS manager must notify the Authority and the CIS custodian immediately to this effect and the CIS manager must reimburse any incoming or outgoing unitholder who has suffered damage as a consequence and must reimburse the scheme or sub-fund for any damage suffered as a consequence within 30 days. The CIS custodian must give written notification to

⁵² The point in time at which a valuation is undertaken such as 12 noon

⁵³ The frequency at which a valuation is undertaken, which – for instance – must be not less than once every two weeks are regular intervals for an open ended scheme

the Authority if the CIS manager fails to make reimbursement within the established deadline.

- (9) If the net asset value per unit falls more than 25% from the net asset value per unit on 31 December of the previous year, the CIS manager must notify the Authority immediately.⁵⁴

8531. Audit requirements

- (1) The auditor of an approved scheme must be independent of the CIS manager and the CIS custodian.
- (2) The auditor of an approved scheme may also audit the CIS manager of that scheme.
- (3) The Authority may require the CIS manager to replace the auditor of a scheme if:
 - i) There are allegations of professional misconduct against that auditor;
 - ii) If the auditor ceases to be independent;
 - iii) It determines that the auditor does not have sufficient expertise or capacity to satisfactorily perform its audit functions.
- (4) The audit fee payable to the auditor must be agreed by the CIS manager and disclosed in the CIS annual report and accounts.

8532. Meetings of unitholders

- (1) The CIS manager of an approved scheme or sub-fund may call an extraordinary general meeting of unitholders at its own initiative.
- (2) The CIS manager must call an extraordinary general meeting of unitholders within 10 days of receiving a written request signed by unitholders holding not less than 10% of the value of units in issue in the scheme or sub-fund.
- (3) The CIS manager must give written notification of the meeting to all unitholders of the scheme or sub-fund on the register on the date of the decision to call the meeting, and the CIS custodian and the Authority. The written notification must give at least 15 days' and not more than 25 days' notice of the meeting and must state the agenda, the venue and the time and date of the meeting.
- (4) The minimum quorum⁵⁵ required for conduct of a meeting of unitholders is two unitholders present in person or by proxy excluding the CIS manager and its associates.

⁵⁴ Requirement of Article 17 of Law 706

⁵⁵ This refers to physical presence in person or by proxy for a valid meeting; the proportion required to vote could also be stated or the requirements of Lebanese company law applied; one example is a requirement for a simple majority voting in favour or for 50% or 75% to do so or this can be left to scheme documentation to define

- (5) If after a reasonable time the required minimum quorum is not present, the CIS manager must call a second meeting and must send written notification to unitholders, the Authority and the CIS custodian, giving not less than ten and not more than twenty days' notice of the reconvened meeting. At the second meeting, any number of unitholders holding any number of units present in person or by proxy is a quorum, excluding the CIS manager and its associates.
- (6) Every unitholder is entitled to appoint another unitholder in the scheme or sub-fund⁵⁶ a proxy to represent them at a unitholder meeting.
- (7) The unitholder meeting must be chaired by the CIS custodian.
- (8) Minutes of the meeting must be taken by the CIS manager and agreed as an accurate record with the CIS custodian and must form part of the CIS records.
- (9) Every unitholder is entitled to exercise one vote at the meeting of unitholders for each unit that the unitholder holds at the time of the meeting.
- (10) A proposed material change to a scheme or sub-fund must be adopted only if holders of not less than 75% of units in issue vote in favor of that change.

8533. Disclosure to unitholders and investors

- (1) The CIS manager must provide the key information document for the scheme or sub-fund or unit class to every investor before they invest and if a sale of units is made through a third party must provide that key information document to that third party to be provided to the investor before they invest.
- (2) The current key investor information document, current CIS prospectus and most recent short form CIS annual report and most recent CIS annual report and accounts of the scheme or sub-fund must be promptly provided to potential investors free of charge at their request.
- (3) The CIS manager of a scheme or sub-fund must immediately publish the net asset value per unit of a scheme or sub-fund as often as it is calculated on the website of the CIS manager and must state where this is published in the CIS prospectus and key information document.
- (4) The current key information document and most recent short form CIS annual report for each scheme and sub-fund under the management of a CIS manager must be made prominently and permanently available on the website of the CIS manager.
- (5) The most recent CIS annual report and accounts of the scheme or sub-fund must be provided to a potential investor upon request unless a CIS short form annual report is provided instead.
- (6) The CIS manager must provide each unitholder in the scheme or sub-fund on the last day of the financial year with an annual statement of units owned and the net asset

⁵⁶ Unless under Lebanese law it is possible to appoint anyone else as a proxy?

value per unit of units owned on the first and last days of the period, and transactions in units and investment returns paid to income units in the period.

- (7) The CIS manager of a scheme or sub-fund must send each subscriber or redeemer of units a statement of the number and value of units bought or sold within 5 days of the transaction.

8534. Key information document

- (1) A key information document must be prepared for each scheme which is not an umbrella scheme and each sub-fund of an umbrella scheme.
- (2) The CIS manager is responsible for the preparation and content of the key information document that must be consistent with the CIS statute and the CIS prospectus and must be updated when the CIS prospectus is updated.
- (3) A key information document for a scheme or sub-fund must meet the requirements of Annex 1 and must contain information on how to obtain the CIS prospectus.

8535. CIS annual report and accounts

- (1) A CIS Manager may prepare a CIS short form annual report for a scheme or sub-fund. The content of the CIS short form annual report must be consistent with the CIS annual report and accounts and must state how to obtain the CIS annual report and accounts.
- (2) The CIS manager is responsible for the preparation and content of the CIS annual report and accounts and the CIS short form annual report for a scheme or sub-fund that must meet the requirements of this Regulation and Annex 2.
- (3) The audited CIS annual report and accounts must be approved by the CIS manager and signed by two directors of the CIS manager.
- (4) The audited CIS annual report and accounts for the calendar year must be sent to all unitholders in the scheme or sub-fund on the last day of the financial year by 31 March⁵⁷ of the next year⁵⁸ unless a CIS short form report is sent to all unitholders in the scheme or sub-fund instead by the same deadline.

8536. Termination

- (1) A CIS manager must seek the consent of unitholders of a scheme or sub-fund at an extraordinary general meeting to terminate an approved scheme under Article 8522 applying to a material change to the scheme.
- (2) The consent of unitholders to termination of a scheme or sub-fund is not required in the case of an approved scheme or sub-fund of approved scheme with a fixed life specified in the CIS statute and CIS prospectus when that fixed life expires. The CIS

⁵⁷ This is a typical period internationally and with all funds having the same financial year, allowing 4 months is more realistic than a shorter period (and the supply of eligible auditors may also be limited)

⁵⁸ Required by Article 40 of Law 706

manager must give the unitholders and the Authority at least thirty days' notice of such termination.

- (3) The consent of unitholders to termination of a scheme or sub-fund is not required in the case of an approved scheme or sub-fund of an approved scheme whose CIS statute and CIS prospectus clearly state that it will be terminated upon the occurrence of specified events, provided that one of those events has occurred. The CIS manager will notify the Authority and unitholders in writing as soon as possible after the occurrence of the specified event triggering the termination of the scheme.
- (4) The consent of unitholders to termination of a scheme or sub-fund is not required in the case of an approved scheme that is required to be terminated under Article 18 of Law 706.
- (5) Termination of an approved scheme must be published in the Lebanese Gazette.

8537. Reporting to the Authority

- (1) A CIS manager must submit a quarterly report to the Authority on all the schemes and sub-funds under its management within twenty⁵⁹ days of the last day of the quarter⁶⁰. The report must meet the requirements of Annex 3⁶¹.

Part F: Exempt offer schemes established in Lebanon

8601. Application of this Part

- (1) This Part applies to exempt offer schemes established in Lebanon.

8602. Offer of units

- (1) A notification to the Authority to establish, manage and offer units in an exempt offer scheme must be made by an approved institution approved by the Authority to undertake the activity of a CIS manager.
- (2) A notification must meet the requirements of Annex 1.
- (3) Units in an exempt offer scheme may only be offered in Lebanon through an exempt CIS offer made in accordance with Article 8603 and the Offers of Securities Regulation.

8603. Exempt offer schemes and eligibility of investors

- (1) An offer of units in an exempt offer scheme or sub-fund is an exempt CIS offer for the purposes of this Regulation where:
 - i) The offerees are all professional clients; and

⁵⁹ Required in Article 40 of Law 706 but given as days for consistency with rest of deadline references

⁶⁰ Required by Article 40 of Law 706 but given as days for consistency with rest of deadline references

⁶¹ The quarterly report which will be contained in Annex 3 is yet to be drafted

- ii) The minimum amount payable in subscription per offeree is \$US 100,000 or the equivalent in another currency.
- (2) A scheme or sub-fund offered other than in compliance with (1) must meet the requirements for approved schemes and sub-funds.
- (3) The Authority may, in circumstances other than (1) and upon application of a CIS manager seeking to make an offer of units in an exempt offer scheme, determine that such an offer must be treated as an exempt offer scheme subject to compliance with such limitations as the Authority may impose.

8604. Exempt offer scheme requirements⁶²

- (1) A CIS manager that proposes to offer units in a exempt offer scheme must:
 - i) Submit to the Authority the constituting document and offering document for the scheme that must include the disclaimer required in (5) and state that the minimum subscription to the scheme must not be less than \$US 10 million (or the current equivalent in another currency);
 - ii) Pay the fee prescribed by the Authority;
 - iii) Provide any other information that is reasonably required by the Authority.
- (2) If after receiving a notice under Article 8602 the Authority considers that the proposed offer of units may not be in the interests of investors in Lebanon or may result in a breach of Law 161 or the Regulations under Law 161 then it may take the following actions:
 - i) Carry out any enquiries that it considers relevant to the proposed offer; or
 - ii) Require the CIS manager to provide further information or to verify, certify or substantiate any information provided to the Authority.
- (3) If the Authority determines that the proposed offer is not in the interests of investors in Lebanon or may result in a breach of Law 161 or the Regulations the Authority may publish a notice prohibiting that offer and issue a notice to the CIS Manager directing it not to make that offer.
- (4) If the Authority does not object to the proposed offer within fifteen days of receipt of the notice under (1) the CIS Manager may proceed to create the scheme. The Authority shall, if the CIS manager requests this, issue a certificate of registration to the CIS manager, stating that it has no objection to the establishment of the exempt offer scheme and the offering of its units and enter the name of the scheme on the Register of schemes.
- (5) The offering document of the exempt offer scheme must contain a prominent statement that:

⁶² Establishment and operation of an exempt scheme is subject to the requirements of Parts A – D of the Regulation that includes provisions regarding the constituting document and offering document of the scheme

“This scheme is not subject to the requirements for schemes that are offered to the public in Lebanon under Law 706 and the Collective Investment Scheme Regulation issued by the Authority or to supervision by the Authority. The Authority does not make any representation as to the accuracy or completeness of this document and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this document. Prospective subscribers to the scheme should conduct their own due diligence on the accuracy of the information relation to the scheme.”

- (6) The CIS manager must file the results of the offer with the Authority within five days of the end of the initial offer period in the form prescribed by the Authority.

8605. Participation

- (1) An exempt offer scheme must be established under the constituting document and the offering document of the scheme.
- (2) A subscriber to the scheme signifies their acceptance of the constituting document and the offering document of the scheme by the purchase of units in the scheme.
- (3) A unitholder is entitled to exercise all rights in relation to units upon payment for those units.
- (4) The rights of the holder of a unit to redeem (if any) must be stated in the constituting document and offering document of the scheme including how this can be exercised.
- (5) The rights of the holder of a unit to consent to proposed changes to the constituting document and offering document of a scheme must be stated in the constituting document and offering document of the scheme including how such rights can be exercised.
- (6) The rights of the holder of a unit to receive an audited CIS annual report and accounts must be stated in the offering document.

8606. Restrictions on secondary market activity

- (1) An exempt offer scheme must not be listed or traded on any securities exchange.
- (2) Transfers of units in an exempt offer scheme if permitted by the constituting document must only be made:
 - i) To existing unitholders in the scheme; or
 - ii) To another professional client and the minimum amount payable for such units is not less than \$US 100,000 or the equivalent amount in another currency.

8607. Termination of scheme

- (1) The provisions for termination of an exempt offer scheme must be stated in the constituting document and offering document of the scheme.

8608. Investment objectives and policy

- (1) The investments of an exempt offer scheme may consist of assets of any type or description but the CIS manager must clearly state the investment objective and investment policy of the scheme and the permitted investments of the scheme together with any investment restrictions or limitations in the scheme's constituting document and offering document.
- (2) The CIS manager must have a duty under the constituting document of the scheme to comply at all times with the scheme's investment objective, investment policy, permitted investments, restrictions and limitations as established in the scheme's constituting document and offering document.
- (3) The ability of an exempt offer scheme to borrow or leverage is unlimited but the maximum amount and duration and type of such borrowing and the means of achieving leverage that may be used and their implications must be stated in the scheme's constituting document and offering document.

8609. Valuation, pricing and dealing in units

- (1) The constituting document and offering document of the scheme must clearly establish:
 - i) The basis and methodology for the valuation of scheme property;
 - ii) The calculation of net asset value per unit of the scheme and the frequency and timing of that calculation;
 - iii) The policy on pricing of units for open ended schemes and interval schemes;
 - iv) Requirements for dealing in and transfer of units of the scheme for open ended schemes and interval schemes.
- (2) The CIS manager must notify unitholders of any change under (1) and the procedure for such notification must be set out in the offering document.

8610. Securities advertisements and promotional materials

- (1) A CIS manager must not advertise or communicate securities advertisements and promotional materials relating to an exempt offer scheme unless the following conditions are complied with:
 - i) The securities advertisement or promotional materials are directed at and available solely to identified professional clients; and
 - ii) The securities advertisement complies with the requirements of the Licensing and Registration Regulation; and
 - iii) Notification has been made under Article 8601 sub-article (1) and the prescribed 15 day period following notification under Article 8601 sub-article (4) has passed and no objection has been received from the Authority.

Part G: Offer of units in a foreign scheme**8701. General requirements for offer**

- (1) Public offer of units in a foreign scheme in Lebanon is not permitted unless that scheme has been recognized by the Authority as being a collective investment scheme eligible for public offer created in a jurisdiction that the Authority has recognized as offering equivalent protection to Lebanese investors as Law 706 and this Regulation.
- (2) An offer of units in a foreign scheme in Lebanon that is not a recognized scheme is only permitted if the offer complies with the exempt CIS offer requirements of this Part and the Offers of Securities Regulation. An offer of a foreign scheme is an exempt CIS offer for the purposes of this Regulation where:
 - i) The offerees are all professional clients; and
 - ii) The minimum amount subscribed by each offeree is \$US 100,000 or the equivalent in another currency.
- (3) A foreign scheme or sub-fund offer that does not comply with (2) must meet the requirements for a public offer of recognized schemes and sub-funds in this Part.
- (4) All offers of foreign schemes in Lebanon must be made by an approved distribution agent that is an approved institution licensed by the Authority to perform that activity and is appointed as the approved distribution agent by the CIS manager or CIS operator of that scheme by a written contract signed by both parties.

8702. Requirements for recognition and public offer

- (1) An application for recognition of a foreign scheme for public offer in Lebanon must only be recognized by the Authority on application of the approved distribution agent appointed by the CIS manager or CIS operator of that scheme.
- (2) The application must contain the information required in Annex 1 and must include a copy of the current offering document for the scheme and its constituting document in Arabic or English. The offering document must include an addendum containing the disclaimer required in Article 8705 sub-article (1).
- (3) The applicant must provide evidence acceptable to the Authority that the scheme for has been approved for public subscription by a regulatory authority in a jurisdiction recognized by the Authority as providing at least equivalent investor protection to Law 706 and this Regulation⁶³.
- (4) The application fee prescribed by the Authority must be paid.

⁶³ Annex 4 listing such laws has yet to be drafted; it is suggested that the list of jurisdictions might include those subject to the European UCITS Directive and the relevant laws governing publicly offered funds of OECD Members and the Authority may wish to consider other laws in the region – such as Saudi Arabia and Dubai.

- (5) The application must include a signed copy of the agreement between the CIS manager or CIS operator of the scheme and the approved distribution agent for the scheme in Lebanon and must state the name and address of the agent's representative for receipt of notices from the Authority. The agreement must state that the approved distribution agent will provide the following facilities for investors or potential investors in that scheme in Lebanon:
- i) Ability to purchase units and, in the case of an open ended scheme or interval scheme, to redeem units, and to ascertain prices for subscription and redemption;
 - ii) Payment of income due to income units;
 - iii) Availability of copies of the offering document and the most recent CIS annual report and accounts of the scheme (or sub-fund) free of charge and any key information document and CIS short form annual report in either English or Arabic. These documents must be available on the website of the approved distribution agent.

8703. Process and powers of the Authority

- (1) The Authority shall consider the application within thirty days of receipt of all the information required by this Regulation.
- (2) In assessing an application for recognition of a scheme the Authority may:
 - i) Carry out any review, enquiry or investigation that it considers appropriate.
 - ii) Inspect any office or premises of the applicant.
 - iii) Require the applicant to explain any matter the Authority considers relevant to the application.
 - iv) Require the applicant to provide any additional information or documents that the Authority considers relevant.
 - v) Require the applicant to verify, certify or substantiate any information provided to the Authority.
- (3) The Authority may refuse to consider an application if:
 - i) It is incomplete.
 - ii) It does not meet the requirements prescribed by the Authority.
 - iii) The applicant has failed to provide information requested by the Authority, or has failed to provide information within a specified time.
 - iv) The fee prescribed by the Authority has not been paid.
- (4) After completing its assessment of an application, the Authority will make one of the following decisions:
 - i) Approve the application in whole or in part.
 - ii) Approve the application subject to any conditions and limitations that the Authority considers appropriate.

- iii) Refuse the application.
- (5) If the Authority decides to approve an application for recognition it must give written notification to the applicant, including any conditions and limitations on the approval set by the Authority and enter the name of the scheme in the Register of schemes.
- (6) If the Authority decides to refuse an application, it must give written notification to the applicant.

8704. Notification of addition of a sub-fund

- (1) Public offer of units in a new sub-fund of an umbrella scheme previously recognized by the Authority is not permitted unless:
- i) The Authority has received 30 days' prior notice of the addition of the sub-fund by the approved distribution agent of the scheme; and
 - ii) The Authority has not notified the applicant of any objection to the sub-fund within 30 days of receipt of the notice of the proposed addition of the sub-fund.

8705. Offering document requirements

- (1) The offering document for the recognized scheme must include a prominent addendum stating:
- i) “This collective investment scheme has been recognized by the Capital Market Authority of Lebanon for public offer in Lebanon. However, this scheme is not regulated or supervised by the Capital Markets Authority of Lebanon”; and
 - ii) The contact details of the approved distribution agent for the scheme including its website address, its duties to unitholders in Lebanon, and how to obtain information from the agent.

8706. Changes to recognized status

- (1) The Authority may vary, suspend or cancel the recognition of a collective investment scheme or employ any of the other powers available to it under Law 706 or Law 161 as is necessary for the protection of investors or upon the request of the approved distribution agent or the CIS manager or CIS operator of that scheme.

8707. Cancellation of recognition

- (1) The Authority may cancel the recognition of a collective investment scheme for failure to pay any fee prescribed by the Authority by the due date or for persistent failure of the approved distribution agent to comply with this Part in offering that scheme.
- (2) An approved distribution agent may request the Authority to cancel the recognition of a collective investment scheme by filing a written request to the Authority at least sixty days in advance of the proposed date of the cancellation.
- (3) A request to cancel a recognition must state the reasons for the cancellation.

- (4) The Authority may require the approved distribution agent making a request to cancel a recognition to:
 - i) Provide any additional information or documents that the Authority considers necessary, or
 - ii) Verify, certify or substantiate any information provided to the Authority.
- (5) After considering the request, the Authority may decide to:
 - i) Cancel the recognition.
 - ii) Delay or postpone the date of the cancellation pending further action.
- (6) In making a decision under sub article (5), the Authority may direct an approved distribution agent to take any action or measures that the Authority considers necessary for the protection of unitholders in the scheme.

8708. Duty of approved distribution agent

- (1) The approved distribution agent of a recognized scheme must provide the information and services specified in article 8702 (5) on an ongoing basis.
- (2) The approved distribution agent of a recognized scheme must file the CIS annual report and accounts of the scheme and any updated offering document for that scheme with the Authority as soon as it is available.
- (3) The approved distribution agent of a recognized scheme must file a quarterly report with the Authority in the form set out in Annex 3⁶⁴ within twenty days of the last day of the quarter⁶⁵.
- (4) The current key information document or equivalent for each recognized scheme and sub-fund must be made available free of charge on the website of the approved distribution agent; if a key information document is not published then the offering document for each scheme and sub-fund must be made available free of charge.
- (5) The most recent CIS short form annual report for a scheme and sub-fund or its equivalent must also be made available free of charge on the website of the approved distribution agent; if a CIS short form annual report is not published then the CIS annual report and accounts must be made available free of charge.

8709. Power of Authority to suspend distribution

- (1) The Authority may direct an approved distribution agent to suspend or to cease distribution of a recognized scheme or sub-fund if:
 - i) It considers that is necessary for the protection of investors.

⁶⁴ To be inserted

⁶⁵ Uses same requirement as Article 8538 (set by law 706) for consistency

- ii) The approved distribution agent has materially failed to comply with the provisions of this Part.

8710. Foreign exempt schemes and eligibility of investors

- (1) An offer of units in a foreign scheme or sub-fund is an exempt CIS offer for the purposes of this Regulation where it meets the requirements of Article 8701 sub-article (2).

8711. Foreign exempt scheme requirements

- (1) An approved distribution agent must not offer a foreign exempt scheme unless it has:
 - i) Notified the Authority of its intention to make the offer in the form set out in Annex 1 at least 15 days prior to making the offer;
 - ii) Submitted to the Authority the information required in Annex 1;
 - iii) Submitted to the Authority the constituting document and offering document for the scheme that must include an addendum containing the disclaimer required in article 8712;
 - iv) Paid the fee prescribed by the Authority;
 - v) Provided any other information that is reasonably required by the Authority.
- (2) If the Authority receives notice of a proposed offer of units that it considers may not be in the interests of investors in Lebanon, or may result in a breach of Law 161 or this Regulation, it may take the following actions:
 - i) Carry out any enquiries that it considers appropriate, including requiring the approved distribution agent to explain any matters that the Authority considers relevant to the proposed exempt CIS offer; or
 - ii) Require the approved distribution agent to provide further information or to confirm in such manner as the Authority may specify, that the information provided is accurate.
- (3) If the Authority determines that the proposed exempt CIS offer is not in the interests of investors in Lebanon or may result in a breach of Law 161 or this Regulation the Authority may notify the approved distribution agent that the offer is prohibited, and take any action it considers necessary to enforce its decision.
- (4) If the Authority does not object to the proposed exempt CIS offer within 15 days of receipt of a notice under (1) the approved distribution agent may make the proposed offer. The Authority shall, at the request of the applicant, issue a certificate to the applicant stating it has no objection to the exempt CIS offer of the scheme.

- (5) If the Authority does not object to the proposed exempt CIS offer within 15 days of receipt of a notice under (1) the Authority shall enter the name of the scheme on the Register of schemes.

8712. Required addendum to prospectus or offering document

- (1) The offering document for the foreign exempt scheme must include a prominent addendum stating:
- i) “This scheme is not subject to the requirements for schemes that are offered to the public in Lebanon under Law 706 or to supervision by the Authority. The Authority does not make any representation as to the accuracy or completeness of this document and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this document. Prospective subscribers to the scheme should conduct their own due diligence on the accuracy of the information relation to the scheme.”
 - ii) The contact details of the approved distribution agent for the scheme and how to obtain information from that Agent.

8713. Cancellation of consent by the Authority

- (1) The Authority may cancel its consent to exempt CIS offer of a foreign exempt scheme for:
- i) Failure to pay any fee prescribed by the Authority by the due date; or
 - ii) For persistent failure of the approved distribution agent to comply with this Part; or
 - iii) For failure to comply with exempt offer requirements.

8714. Restriction on secondary market activity

- (1) A foreign exempt scheme must not be listed or traded on any securities exchange in Lebanon.
- (2) Transfers of units in foreign exempt schemes (if permitted by the constituting document) must only be made within Lebanon:
- i) To existing unitholders in the scheme; or
 - ii) To another professional client where the minimum amount payable for such units is not less than \$US 100,000 or the equivalent amount in another currency.

8715. Securities advertisements and promotional materials

- (1) An approved distribution agent must not advertise or communicate securities advertisements and promotional materials relating to a foreign exempt scheme unless the following conditions are complied with:

- i) The securities advertisement or promotional materials are directed solely at and are accessible solely to identified professional clients; and
- ii) The securities advertisement complies with the applicable provisions of the Licensing and Registration Regulation; and
- iii) Fifteen days have elapsed following the notification to the Authority of the offer of the scheme to the Authority required in Article 8711 sub-article (1) (i) and no objection to the offer of the scheme has been received from the Authority.

Part H – General Powers of the Authority

8801. Enforcement by the Authority

- (1) The Authority may direct a CIS manager or CIS custodian or approved distribution agent of a scheme or sub-fund to take any action or measures that the Authority considers necessary to correct a breach of this Regulation or for the protection of unitholders in a scheme or sub-fund.
- (2) The Authority may impose administrative sanctions on any person who violates the provisions of this Regulation, in accordance with the sanctions that may be imposed under Law 706 of 09/12/2005 and Law 161 of 17/8/2011.

Part I – Transitional provisions

8901. Date of application of the Regulation

- (1) The operation of all domestic collective investment schemes offered in Lebanon prior to the date of this Regulation coming into force must comply with this Regulation within eighteen months from the date of this Regulation entering into force.
- (2) The offering of all domestic collective investment schemes in Lebanon must comply with this Regulation from the date of this Regulation entering into force.
- (3) The offering of all foreign collective investment schemes offered in Lebanon prior to the date of this Regulation coming into force must comply with articles 8710 – 8715 of this Regulation from the date that this Regulation comes into force.
- (4) The public offering of any foreign collective investment scheme offered in Lebanon prior to the date of this Regulation is not permitted from the date that this Regulation comes into force unless the Authority has confirmed in writing that it is satisfied that that scheme meets the requirements of article 8702.
- (5) This Regulation applies to the establishment or offering of any collective investment scheme in Lebanon for which an application is made for establishment or offering of that scheme (whether for approval or recognition or registration for establishing or offering of such schemes in Lebanon) from the date of this Regulation entering into force.

ANNEX 1

APPLICATION FORM FOR A COLLECTIVE INVESTMENT SCHEME APPROVAL, RECOGNITION OR REGISTRATION OF EXEMPTION

Instructions

1. An applicant for approval, recognition or registration of exemption of a collective investment scheme must file this completed form and all supporting information and documents with the Authority at:

[Name and address for filing applications]

2. An applicant must file all the relevant information and documents listed in the exhibits to this application form as prescribed below.
3. All forms, information and reports that are required to be filed must be submitted in both hard copy and soft copy (or on a CD or by email). Documents that require a signature must be filed in hard copy original form as well as by soft copy.
4. The Authority may require an interview with senior management of the applicant and may require the applicant to file additional information or documents.
5. Incomplete applications will be returned and cannot be processed until completed.
6. An applicant that files misleading information, or that attempts to mislead the Authority by filing incomplete, false or inaccurate information, will be denied approval, recognition or registration of exemption.
7. In making application for approval, recognition or registration of exemption for a collective investment scheme that scheme and the CIS manager or approved distribution agent of that scheme become subject to the Regulation as of the time of application.

APPLICATION FORM FOR A COLLECTIVE INVESTMENT SCHEME APPROVAL, RECOGNITION OR REGISTRATION OF EXEMPTION

1. **Name of applicant**
2. **Date**

APPLICANT'S DECLARATION

1. **We apply for [approval] [recognition] [registration of exemption] for [name of collective investment scheme] by the Authority.**

- 2. We have read and understood the Collective Investment Schemes Regulation.**
- 3. We undertake that, if this application is approved, we and our employees and agents will comply with the relevant provisions of the Collective Investment Schemes Regulation and all decisions and directions of the Authority.**
- 4. We hereby confirm that:**
 - i) The information set out and included in this application is complete and accurate, to the best of our knowledge and belief.**
 - ii) The scheme meets and is in compliance with all of the requirements for [approval] [recognition] [registration of exemption] to the best of our knowledge and belief.**
 - iii) There are no additional facts or matters that are material to the Authority's consideration of our application that we have not disclosed to the Authority.**
 - iv) We undertake to advise the Authority of any significant or fundamental change that occurs at any time after this form is submitted and until such time as the scheme ceases to conduct its activities or to be offered in Lebanon.**
 - v) We authorize the Authority to contact any person named herein to verify the contents of this form. In so doing the Regulatory Authority may refer to the Application.**

EXECUTED ON BEHALF OF THE APPLICANT

Name of applicant

Date

Title of applicant [CEO or equivalent]

Contact information for signatory to this declaration:

APPLICATION FORM

1. Name of applicant
2. Location and address of office of applicant
3. Name, title and contact information for the main contact person(s) for the application

4. Name, address and contact information for legal counsel or other advisers who are advising on this application (if any)
5. Company website of applicant
6. Status of applicant [CIS manager] [approved distribution agent]
7. License number of applicant as an approved institution
8. Legal structure of collective investment scheme: [mutual fund (contractual)] [unit trust] [investment company] [partnership] [other – please state]
9. Operational structure of collective investment scheme: [open ended scheme] [interval scheme] [closed ended scheme]
10. Nature of scheme: [umbrella scheme] [scheme]
11. Country or territory in which the collective investment scheme is legally created: [name of country or territory]
12. Law under which the collective investment scheme is created in that country: [name of law]
13. Name of regulator responsible for enforcing that collective investment scheme law: [name of regulator]
14. Status of collective investment scheme in that country: [eligible for public offer] [not eligible for public offer]
15. License/approval/registration number of collective investment scheme in that country:
16. Is the applicant, for any reason, precluded in any way from offering or operating the collective investment scheme which the application is made? (If yes, provide details)
17. Has the applicant's registration, licensing or any other form of authorisation by any securities authority or statutory authority ever been suspended or terminated? (If yes, provide details)
18. Is the applicant currently the subject of any investigation, regulatory proceeding or litigation? (If yes, provide details)

EXHIBIT 1**INFORMATION TO ACCOMPANY AN APPROVAL, RECOGNITION OR REGISTRATION OF EXEMPTION APPLICATION****General approval, recognition and exemption application requirements**

1. An application for approval, recognition or registration of exemption must file all of the following information and documents with the Regulatory Authority.

A Information to be supplied by applicants for an approval or registration for exemption for a domestic collective investment scheme

- i) the CIS statute of the collective investment scheme which must contain the information required in Exhibit 2 which must be compliant with the relevant regulatory status applied for (approved or exempt) as required under the Regulation
- ii) the CIS prospectus of the collective investment scheme and any sub-funds which must contain the information required in Exhibit 3 which must be compliant with relevant regulatory status applied for (approved or exempt) as required under the Regulation
- iii) for an approved scheme, the key information document for the scheme and any sub-funds in compliance with Exhibit 4
- iv) the name of the proposed independent auditor and a signed letter giving their agreement to act in this capacity
- v) the name of the proposed CIS custodian, the license number if it is an approved institution and a signed letter stating their agreement to act in this capacity

B Information to be supplied by applicants for recognition or registration of an exemption of a foreign collective investment scheme

- i) An original signed letter appointing the approved distribution agent from the CIS manager or CIS operator of the scheme
- ii) The contract between the approved distribution agent and the CIS manager or CIS operator of the scheme stating that the approved distribution agent will provide the services required in section 8702 (5) of the Regulation
- iii) In the case of an application for recognition, evidence of the status of the scheme as eligible for public offer under the law/regulation of the country/territory in which the scheme was created
- iv) In the case of an application for registration of exemption, evidence of the exempt or registered (or equivalent) status of the collective investment scheme under the law/regulation of the country/territory in which the scheme was created
- v) A copy of the constituting documents of the scheme [and if translated verification that it is a correct translation]
- vi) A copy of the offering document and any key information document or similar of the scheme and, in the case of an umbrella scheme, of all sub-funds in respect of which application is made in English or Arabic [and if translated verification that it is a correct translation]

- vii) A copy of the most recent CIS annual report and accounts of the scheme and in the case of an umbrella scheme for each sub-fund in respect of which application is made.

ANNEXE 1A

APPLICATION FOR CHANGE TO APPROVED CIS

1. Name of applicant

2. Date

APPLICANT'S DECLARATION

- 3. We apply for variation in the approval for [name of collective investment scheme] by the Authority.**
- 4. We have read and understood the Collective Investment Schemes Regulation.**
- 5. We undertake that, if this application is approved, we and our employees and agents will comply with the relevant provisions of the Collective Investment Schemes Regulation and all decisions and directions of the Authority.**
- 6. We hereby confirm that:**
- i) The information set out and included in this application is complete and accurate, to the best of our knowledge and belief.**
 - ii) The scheme will continue to meet and is in compliance with all of the requirements for approval to the best of our knowledge and belief.**
 - iii) There are no additional facts or matters that are material to the Authority's consideration of our application that we have not disclosed to the Authority.**
 - iv) We authorize the Authority to contact any person named herein to verify the contents of this form. In so doing the Regulatory Authority may refer to the Application.**

EXECUTED ON BEHALF OF THE APPLICANT

Name of applicant

Date

Title of applicant [CEO or equivalent]

Contact information for signatory to this declaration:

1. Nature of amendment of approved scheme: (Please indicate which of the following changes described below the applicant wishes to undertake; or add as needed)

In the case of an umbrella scheme, addition of one or more sub-funds

Variation of status

Vary regulatory status from to

Vary legal structure from to

Vary operational structure from to

Alteration which is a fundamental change to an approved scheme:

Alteration to the constituting documents or CIS prospectus of the scheme

Change in the CIS manager or CIS custodian of the scheme

Termination of one or more sub-funds

Proposal to wind up the scheme

Other

Alteration which is a significant change to the scheme[state nature]

Other.....

EXHIBIT 2

INFORMATION TO BE CONTAINED IN THE CIS STATUTE FOR AN APPROVED SCHEME

The constituting document of a collective investment scheme should include –

- (1) Name of scheme
- (2) Law under which scheme is established
- (3) Legal form of scheme
- (4) Capital structure of scheme
- (5) Scheme investment objective and investment policy
- (6) Participant's liability to pay
[Provision that a unitholder is only liable to the scheme to the extent of the value of the unit held in that scheme reference article 8508 (7).]
- (7) Fees, charges and other expenses of scheme
- (8) Classes and types of units
- (9) No partly paid units
[A statement that no partly paid units may be issued and no credit shall be granted to unitholders or potential unitholders.]
- (10) Income and capital distribution
- (11) Investment and borrowing restrictions
- (12) Management of borrowing risks
- (13) Valuation and pricing
- (14) Base currency
- (15) Functions and duties of CIS manager
- (16) Functions and duties of the CIS custodian
- (17) Meetings of holders
[A statement providing details of the following:
 - (a) the procedures for calling meetings of unitholders;
 - (b) resolutions and voting at meetings of unitholders;
 - (c) the voting rights of unitholders;

- (d) the matters that require the approval of unitholders;
- (e) the matters that require the approval of a special resolution.]

- (18) Accounting periods

- (19) Duration of scheme

- (20) Replacement of parties

- (21) Suspension and winding-up
[A statement providing details of—
 - (a) the grounds on which the CIS manager may initiate a suspension of the scheme; and
 - (b) the circumstances in which the scheme or the sub-fund may be terminated; and
 - (c) the methodology for working out the rights of unitholders to participate in the scheme property on winding-up.]

- (22) Amendment of constituting document

- (23) Documents evidencing title to units

- (24) Any limits on unit subscription and redemption

- (25) Conflicts of interests with associates
[Provisions for managing conflicts of interests (or potential conflicts of interest) in transactions by the CIS manager with associates in relation to the scheme property.]

- (26) Material changes
[Provisions providing for approval by unitholders of material changes in relation to the scheme.]

- (27) In the case of an umbrella scheme
 - (a) That the holder is entitled to exchange units in any sub-fund or any other sub-fund but that no unitholder requesting such an exchange may have the right to subsequently withdraw from or cancel that exchange;
 - (b) The policy for allocating between sub-funds the costs or charges or expenses payable out of the umbrella scheme property which are not attributable to any one sub-fund;
 - (c) What charges if any may be made on exchanging units in one sub-fund for units in another sub-fund.

- (28) In the case of a closed ended scheme investing in real estate, the appointed independent expert and how said expert may be replaced

EXHIBIT 3

INFORMATION TO BE CONTAINED IN THE CIS PROSPECTUS FOR AN APPROVED SCHEME

IMPORTANT

Guidance:

The CIS prospectus constitutes the fundamental base of information for the subscribers of units of a collective investment scheme or a sub-fund of a scheme. Whenever the CIS prospectus is amended, a copy of the revised CIS prospectus shall be filed with the Authority.

The information required by this Annex constitutes a minimum and other information may be added provided that it is not misleading and is designed to increase the comprehension of the investment being proposed.

The CIS prospectus shall include full disclosure of the information required by the investors to make an informed decision on the investment in the scheme or in the sub-fund of the scheme as the case may be.

Requirement:

In this Schedule, for a scheme which is an umbrella scheme, information required must be stated –

- (a) in relation to each sub-fund where the information for any sub-fund differs from that of any other; and
- (b) for the umbrella scheme as a whole, but only where the information is relevant to the umbrella scheme as a whole

Also, in the first part, general information may be given to assist the investor in the understanding of collective investment schemes in general and that type of investment and the risks involved.

Heading I: Presentation of the collective investment scheme or sub-fund

(1) General Information concerning the collective investment scheme, indicating its type and principal sphere of activity from among the following list or another activity defined by the scheme –

- (a) Status

Governing law

Legal structure (mutual fund)

Operational structure:

Open ended scheme, closed ended scheme, interval scheme

Offering status:

Approved scheme (publicly offered)

Scheme or sub-fund

Date of the prospectus and contact details for where more information may be obtained.

(a) Investment objective and investment policy: state whether this is -

Growth

Income

Balance of growth and income

Capital preservation

How this investment objective will be achieved

(b) Investment sphere (asset class)

(2) Name and Address of collective investment scheme

State the full name of the collective investment scheme and the address of its head office.

If the name of the scheme was changed during the past twelve months, state its former name.

State the name and address of the CIS manager.

(3) Constitution of the collective investment scheme

State the law under which the scheme was constituted, the manner, the date of formation and any particularities relating to its legal structure.

Give a summary of the particulars of the constituting documents, attach copy to the CIS prospectus or indicate where the investor can obtain a copy free of charge.

(4) Risk warnings

For all schemes the following statements must be given prominently:

“The Capital Markets Authority does not accept any responsibility for the content of the information included in the offering documents, including the accuracy or completeness of such information. The liability for the content of the offering documents lies with the CIS manager of the scheme. The CMA has also not assessed the suitability of the securities covered by the offering documents for any particular investor or type of investor.”

“The value of your investment in the [named collective investment scheme] and the income you receive from it, may go down as well as up. You may not receive back the amount that you invested.”

For all schemes where past performance of the scheme is quoted:

“Past performance is not a reliable indicator of future performance.”

For a scheme which is a fund of funds:

“This scheme’s function is to invest in other collective investment schemes. Investing in this scheme therefore exposes the investor to two sets of charges, one at the level of the scheme into which investment is made, and another at the level of the schemes into which investment is made.”

For a scheme which involves a higher than average degree of risk in terms of volatility of the net asset value per unit, a warning that:

“The value of units in this scheme is likely to rise and fall more quickly and more frequently than those of other schemes due to the type of investments it makes. This increases the uncertainty of a particular level of return being achieved over any given period.”

Heading II: Organisation and Management of the scheme

(1) Give details and principal functions of the

(a) CIS manager;

(b) CIS custodian;

(c) registrar, if applicable;

(d) auditor;

(e) any entity to which management of all or a part of the investments of the scheme has been or will be delegated, if applicable;

(f) appointed independent expert, in the case of closed ended scheme investing in real estate.

Heading III: CIS manager

Name and address of head office of the CIS manager, date of constitution and law under which constituted.

Name and address of each member of the board of directors of the CIS manager, indicating those that are independent directors. In the case of independent directors, indicate their principal employment.

Name of natural persons acting as portfolio managers, with details of qualifications and any previous experience in the management of portfolios of collective investment schemes.

Description of the senior management of the CIS manager.

Circumstances under which the collective investment scheme management agreement may be terminated.

Heading IV: Investment Objective and Practices and Financial Characteristics

(1) Investment objective and practices

Identify the minimum and maximum capital to be raised and the period within it shall be raised.

State the fundamental investment objective of the scheme, the types of assets in which the scheme proposes to invest (bonds, shares, money market instruments, real estate, etc.), as well as investment policies and practices of the scheme in pursuing its objectives. Identify whether the scheme will invest domestically or abroad or both and any variation in exposure that may occur over time. If the scheme will invest abroad, identify in which countries or territories it may invest.

Describe the investment rules to be followed by the scheme and give an explanation as to why these rules may differ from these regulations, if applicable.

Identify the maximum permitted proportion of the scheme property that may consist of an investment of any description.

Explain the nature of the risks associated with the scheme's portfolio, including minimum exposure to stock market, sensitivity to rate of interest risk, exposure to currency risk, concentration risk, derivative risk, foreign investment risk, investment in illiquid assets risk, etc.

Degree of specialisation (in a geographic region or in a particular class or kind of industry).

Diversification: specific limitations imposed by regulation and by the CIS prospectus, if narrower.

In the case of a scheme that proposes to acquire securities of other collective investment schemes, describe the measures put in place to resolve the conflicts that may arise, the additional risks, if any, and whether the strategy will have an impact on the fees charged and the return on investment.

(2) Type of investors

Type of investors for whom units of the collective investment scheme would be suitable. In particular, any period recommended for an investment in the scheme.

(3) Guarantee or protection

Nature of the guarantee or protection, if any, and the institution providing the guarantee, purpose, terms and conditions.

(4) Changes in the net asset value per unit

Where available state the highest and lowest net asset value per unit in each of the last three audited years preceding the date of the prospectus.

(5) Dividends or Distributions

Explain when and how the income and gains of the scheme will be distributed, if applicable.

State the amount of dividends or other distributions, if any, paid by the collective investment scheme including income and realized gains distributed by way of dividend reinvestment, during its last three audited financial years preceding the date of the CIS prospectus.

(6) Performance

Except in the case of a first offering, provide information on the performance of the scheme during its last three completed financial years (or since inception if more recent) preceding the date of the prospectus, including net asset value at the beginning, plus results (net income and net capital gain), less distributions of income, net asset value at the end, total return for the year.

The information on performance must follow the requirements prescribed.

(7) Tax status of scheme and unitholders

Where applicable, state in general terms, if any, the income or other tax consequences to the unitholders of the scheme in Lebanon.

Heading V: Conditions of Operation

(1) Description of units offered

Describe all significant characteristics of the units offered: accumulation units, income units, unit classes; rights (eg dividend rights, liquidation rights, voting rights, redemption rights etc); how these rights may be exercised and conditions under which these characteristics may be modified.

State that the liability of a unitholder is limited as stated in the Regulation.

Describe the units being offered, including the currency of denomination and the method of indicating the ownership (ie register entry).

State the disclosure that will be made to unitholders and when this will be made (availability of information on prices of units, distribution of CIS annual reports and accounts or CIS short form reports).

State at what dates dividends will be payable where relevant.

(2) Net Asset Value

Describe the method used to calculate the net asset value of the scheme and of a unit, including the frequency of the calculations and any other information in accordance with these regulations as agreed with the CIS custodian.

Describe the method used to calculate the net asset value per unit as defined in the Regulation.

Give, if applicable, the net asset value of the scheme at the end of the last three completed financial years preceding the date of the prospectus, unless the information is given in the financial statements.

(3) Price

For an open ended scheme or interval scheme, describe the methodology of calculating the price per unit for the purposes of subscription or redemption of units.

(4) Subscriptions and Redemptions

(A) For all schemes

If applicable, indicate if a minimum subscription is required and the number or value of units required.

Indicate that the subscription price for a unit must be fully paid up before an order to purchase units of the scheme can be fulfilled.

In the case of a new scheme where a minimum value of \$US 10 million of units must be subscribed, describe the terms according to which funds will be kept and returned to subscribers if that minimum is not reached, including the name and address of the bank where the funds will be kept.

In the case of a new scheme, state the maximum period of the initial offer period and the fixed price for that period, stating under what circumstances the fixed price offer period may be terminated.

Provide a summary of fees and charges payable by the scheme as relevant as follows -

Type of charge - description including amount or rate on subscriptions or redemptions

Amounts payable on -

- (a) subscription for units
- (b) exchange/transfer of units to a related scheme ('switch')
- (c) redemption of units

Charges - Services

Amounts payable with respect to fees paid directly to the CIS manager by the unitholder for -

- (a) obtaining certificates
- (b) any charges for regular savings plans into the scheme
- (c) any charges for withdrawal plans from the scheme
- (d) any other (insert descriptions) - eg dividend reinvestment charges, wire order charges

(B) For an open ended scheme or interval scheme

Explain the procedure for subscription and redemption of units of the scheme, including places where subscription and redemption orders are received.

Give the subscription charge/s and redemption charge/ as a percentage of the net asset value per unit.

If applicable, rates of charges where they vary depending on the amount of the subscriptions or the redemptions. Where investors have a choice between different types of payment of the charges (subscription charge, redemption charge) explain each type in detail and indicate the effect on return on investment of the choice made.

State the circumstances in which subscription and redemption may be suspended or resumed and how unitholders will be informed in such an eventuality.

In the case of a scheme that intends to invest in units of another collective investment scheme, give details of the agreement concerning subscription charges and redemption charges and annual management charges. Indicate the additional risks, if any, in that type of scheme. Give comparisons, if appropriate, of the charges.

(5) Annual Management Charges and Other Fees and Charges

State each type of payment that may be made from the scheme property giving details of: who the payment is made to, what the payment is for, the rate or amount where available, how it will be accrued and when it will be paid.

Where a performance fee is taken, examples of its operation, stating clearly how and when lower fees are charged for underperformance of the stated benchmark in addition to how and when additional fees are paid for outperformance of the stated benchmark.

State whether payments are to be made from the income property or from the capital property of the scheme; or if from both, in what proportion or by what type of payment and the effect of these payments on income or on capital as relevant.

Give the method used for calculation of the annual management charge, taking into account the various components and any other information in accordance with the Regulation. State the permitted maximum annual management charge in the constituting document of the scheme and the present annual management charge and how notice will be given if this will be changed. Except in the case of an initial offer, give the operational expense ratio for each of the last three financial years of the scheme. Where a change to the basis of this calculation is proposed, indicate the effect the proposed change would have had on the ratio during the last financial year. Give a clear explanation as to the operational expense ratio so that investors will understand and explain the effect of the operational expense ratio on the return on investment.

Heading VI: General

(1) Information

Indicate where a subscriber may obtain the constituting document of the scheme, if it is not included in the CIS prospectus.

Indicate where a subscriber may find disclosure of the price per unit of the scheme.

In the case of a closed ended scheme, indicate where the subscriber may find disclosure of the net asset value per unit.

(2) Listing

Indicate if the scheme will be listed and, if so, where it will be listed and how the quotations are to be understood by the unitholders.

(3) Termination

Indicate in what circumstances and how the scheme may be terminated.

Heading VII: Conflicts of interest

Give a description of the potential conflicts of interest which could arise between the CIS manager and its associates, any entity to which management of all or part of the scheme's portfolio is delegated and its associates, the CIS custodian and their associates and the scheme with details, where applicable, of how these are going to be resolved.

Give a description of any advantageous commission arrangements which may be entered into by the CIS manager of a scheme.

Give the name of any third party which has been contracted by the CIS manager to carry out its functions; and give material provisions of the contracts between third parties and the CIS manager, which may be relevant to unitholders, excluding those relating to remuneration.

Heading VIII: Signatures

Two appropriately authorized directors or equivalents of the CIS manager of the scheme shall sign the prospectus.

Heading IX: Other information

Date of CIS prospectus

Name of the Authority supervising the scheme

EXHIBIT 4**INFORMATION TO BE CONTAINED IN THE KEY INFORMATION DOCUMENT
FOR AN APPROVED SCHEME**

The key information document of an approved scheme and sub-fund must contain the following information. The document shall not be longer than two sides of A4 paper and shall be written so that it is understandable by an ordinary member of the public.

- (1) Name of scheme and scheme legal structure (sub-fund if this is the case)
- (2) The name and address of the CIS manager
- (3) The name of the CIS custodian
- (4) The name of the auditor
- (5) The name of the appointed independent expert, if any
- (6) Definition of the investment objective of the scheme
- (7) The investment policy of the scheme and a brief assessment of its risk profile (relating to categories of asset in which it will invest, diversification, borrowing and use of derivatives to hedge currency risk)
- (8) Historical performance of the scheme for the most recent five accounting years or since launch whichever is shorter and a warning that this is not an indicator of future performance
- (9) A brief profile of the typical investor that the scheme is designed for (*Note: as an example, for an equity growth fund “this fund is suited to an investor seeking capital growth who is prepared to accept risk to their capital and to invest for the medium to long term”*)
- (10) The maximum amount of any subscription charge and any redemption charge on a unit expressed as a percentage
- (11) Amount of the annual management charge as a percentage
- (12) The operating expense ratio for the most recent audited year (or an estimate of the first year’s operating expense ratio for a new fund, with a note to the effect that this is an estimate)
- (13) A statement that on request the CIS prospectus and CIS annual reports and accounts or CIS short form annual report may be obtained free of charge and where this may be obtained
- (14) The identity of the regulatory authority that has approved the scheme
- (15) The date of publication of the key information document

EXHIBIT 5

VALUATION OF AN APPROVED SCHEME

- (1) A money market scheme shall value money market instruments on an amortized cost basis.
- (2) Securities should be valued using the most recently available price from a reputable source of market prices independent of the CIS manager with the exception of prices of units in schemes operated by the same CIS manager.
- (3) Participations (shares or units) in open ended schemes and interval schemes shall be valued at the most recent single price less any redemption charge applicable and for a dual priced scheme, at the most recent bid price of that scheme.
- (4) Participations (shares or units) in closed ended schemes, if these are listed and traded, shall be valued as required by (2).
- (5) Deposits shall be valued at nominal or cash value.
- (6) Money market instruments held by a scheme that is not a money market scheme and which are traded shall be valued at the weighted average price at which that instrument was traded on the most recent day before the valuation is calculated.
- (7) Real estate shall be valued by the appointed independent expert of the scheme.
- (8) The CIS manager and CIS custodian of each scheme shall set out in the constituting document of the scheme the valuation basis to be used where there is no recent market price for a security and how this shall be applied.

ANNEX 2

REPORTING FOR APPROVED AND EXEMPT SCHEMES

ANNEXE 2A

REQUIRED CONTENTS OF CIS ANNUAL AUDITED REPORT AND ACCOUNTS

The CIS annual report and accounts for a collective investment scheme and for each sub-fund of an umbrella scheme must include the following information, in the categories and order stated:

- (1) The full accounts for the annual accounting period as required by accepted standards;
- (2) The report of the CIS manager which must include
 - a. The identity and status of the scheme;
 - b. Names and addresses of the CIS manager, the CIS custodian, the registrar if any and the auditor and any investment adviser and any appointed independent expert;
 - c. A statement of the regulatory status of the scheme;
 - d. The investment objective of the scheme or sub-fund;
 - e. The policy for achieving that objective;
 - f. The duties of the CIS manager in relation to the scheme or sub-fund;
 - g. A review of the investment activities during the period to which the report relates including a statement of changes in the portfolio over the period either of the largest twenty sales and largest twenty purchase transactions or, if greater, all transactions representing over 1% of net asset value of the scheme;
 - h. For approved schemes, the operational expense ratio for the reporting period
- (3) Particulars of any changes to the scheme or sub-fund during the period to which the report relates which have been notified to participants or which are the result of a resolution of a general meeting;
- (4) Any other information which would enable participants to make an informed judgement on the development of the activities of the scheme or sub-fund during the period and results during the period;
- (5) The report of the scheme which shall include the duties of the CIS custodian with regard to the scheme and in respect of safekeeping of assets of the scheme and a statement whether in any material respect the investment powers and restrictions applicable to the scheme or sub-fund have been exceeded and, in relation to an open ended scheme or interval scheme, whether the sale and redemption of units and the calculation of the price of units and the application of the scheme's or sub-fund's income have not been carried out in accordance with these rules; together with a list of breaches of the investment and borrowing limits under the Regulation and the scheme's constituting document and CIS prospectus in the reporting period;
- (6) A comparative table giving the highest and lowest net asset value of a unit in the scheme or sub-fund for each of the last five years or for as many of those years as the scheme

or sub-fund has been in existence if shorter; the income distributed or allocated for a unit in issue in the scheme or sub-fund during each of those years; the total net asset value of the scheme or sub-fund at the end of each of those years; the number of units and net asset value per unit of each unit class in existence in the scheme or sub-fund at the beginning and end of each of those years and, if the scheme or sub-fund has been the subject of any event which has had a material impact on the size of the scheme (other than sale and redemption of units for cash), an explanation of this and of any changes made in the investment objectives of the scheme, relating it to the time at which it took place. In addition to this, for a closed ended scheme listed on an exchange, the highest and lowest market price per unit during each of the five years shall also be stated;

- (7) For approved schemes, the annual operational expense ratio based on the annual audited expenses in the accounting period (see Exhibit 2A);
- (8) The report of the auditor which must state whether in the opinion of the auditor:
- a. The accounts have been properly prepared in accordance with accepted standards;
 - b. Whether the accounts give a true and fair view of the net income and net gains or losses of the scheme for the annual accounting period in question and the financial position of the scheme at the end of the period;
 - c. Whether the auditor is of the opinion that proper accounting records for the scheme have not been kept or whether the accounts are not in agreement with those records;
 - d. Whether the auditor has been given all the information and explanations which, to the best of his knowledge and belief, are necessary for the purposes of his audit; and
 - e. Whether the auditor is of the opinion that the information given in the report of the management company operator for the period is consistent with the accounts.
- (9) The audited:
- a. Balance sheet or asset and liability statement for the last working day of the financial year;
 - b. A statement of total return showing income (including income from investments and other income) and expenditure (including management charges, trustee and supervisory custodian charges, other charges and taxes), net income and net gains or losses for the financial year;
 - c. For open ended schemes and interval schemes only, a statement of movement of holders' assets for the financial year (ie the change arising in the net asset value of the scheme over the year due to sales of units, redemption of units, investment performance in terms of capital gains or losses and retention of any distributions and any charges affecting assets and liabilities of the scheme or sub-fund)
 - d. With supporting explanatory notes including on appreciation or depreciation of investments.
- (10) The CIS annual report and accounts must be approved and signed by two directors of the CIS manager.
- (11) Except when a scheme or sub-fund is new, a comparison with the previous year's or half year's figures shall always be shown in the statement of total return, statement of movement of holders' assets and balance sheet.

EXHIBIT 2A

CALCULATION OF ANNUAL OPERATIONAL EXPENSE RATIO FOR APPROVED SCHEMES

Guidance: the annual operational ratio is the ratio of the total costs of a stand-alone scheme or sub-fund to the average net asset value of the stand-alone scheme or sub-fund in the accounting year over which the ratio is calculated. It shall be calculated once a year based on the most recent annual accounting year. If there has been a subsequent material change (eg an increase in annual management charge) then an estimate shall be used.

The costs to be included in calculation of the ratio are all costs paid by the stand-alone scheme or sub-fund (including any annual management fee and performance fee paid upon any collective investment scheme in which the scheme invests) that are set out in the CIS prospectus of the scheme or sub-fund with the exception only of:

- a) Subscription charges and redemption charges or any commission or charge payable directly by the investor who buys or sells units in the scheme;
- b) Interest on borrowing;
- c) Payments to third parties to meet costs necessarily incurred in the acquisition or disposal of any asset for the scheme's portfolio;
- d) Taxation payable by the scheme.

Typical costs to be covered in this disclosure are: charges paid to the CIS manager and CIS custodian; to any registrar or third party administrator; to the auditor; to the Shari'a Board; any regulatory fee/license cost; and legal fees payable by the fund.

The total of these costs for the most recent audited year should be divided by the average net asset value of the scheme or sub-fund in the same period and multiplied by 100 to give a percentage figure for disclosure in the CIS annual report and accounts.

ANNEXE 2B

CIS SHORT FORM ANNUAL REPORT FOR APPROVED SCHEMES

Guidance: Short form CIS annual reports must be published within the same deadline as the CIS annual report and accounts and must contain the following information which shall be consistent with that contained in the annual audited report and accounts.

The information required must be given in the categories and order stated.

1. Key information about the scheme or sub-fund, its investment objectives and investment policy including the name and contact details for the CIS manager and CIS custodian.
2. A review of investment activities and performance in the period including:
 - a) a comparative table giving the highest and lowest net asset value of a unit in the scheme or sub-fund for each of the last five years or for as many of those years as the scheme has been in existence;
 - b) the income distributed or allocated for a unit in issue in the scheme or sub-fund during each of those years;
 - c) the total net asset value of the scheme or sub-fund at the end of each of those years;
 - d) the number of units of each class in existence in the scheme or sub-fund at the end of each of those years and, if the scheme or sub-fund has been the subject of any event which has had a material impact on the size of the scheme (other than sale and redemption of units for cash), an explanation of this and of any changes made in the investment objectives of the scheme, relating it to the time at which it took place
 - e) for a closed ended scheme listed on an exchange, the highest and lowest market price per unit during each of the five years shall also be stated.
3. Sufficient information for the unitholder to understand where the scheme is invested at the end of the period and the changes that have been made in the period which affected this.
4. Any other significant information that would be required to enable the unitholder to form an informed judgement on the activities and results of the scheme in the period (including material changes to the CIS prospectus), any qualifications of the report by the auditor, and particulars of any distribution in the period.
5. Details as to how to obtain a copy of the CIS annual report and accounts.

The short form report must be a self-standing document and shall not contain any extraneous publicity material with the exception that a report prepared for all sub-funds of an umbrella scheme shall also be considered to constitute a self-standing document.