

**When will a fund suspend dealing? Who make the decision? Any policies or rules govern this?**

One of the underlying principles of open-ended funds is that holders can freely redeem their units or shares on any dealing day, as stipulated in a scheme's offering document. Thus, suspension occurs only in the interest of investors and in exceptional circumstances, as stipulated in Chapter 10.6 of the Code on Unit Trusts and Mutual Funds. The SFC expects the manager or any other authorized person, to have due regard to all the relevant factors before deciding to suspend dealings and on the duration of suspension. It reserves the right to take any appropriate actions if the interests of holders are prejudiced.

Below are some examples the manager may exercise this right to suspend dealing of a fund:

- (i) when there is a closure of or suspension of trading on a market on which a substantial part of the investments of a fund is traded - a recent example is that the Russian market suspended trading in the early afternoon on the 24th October 2008 due to a significant fall in the RTS and MICEX Indices in the morning session. It resumed trading on 28th October. Accordingly, funds that had a material exposure to the Russian market during that market suspension period would have also been suspended from dealing;
- (ii) when there is a breakdown in any of the means normally employed by the manager in determining the net asset value of a fund – for example, on the 1st November 2005, the Tokyo Stock Exchange was forced to suspend all stock trading and valuation due to a system failure;
- (iii) the manager believes that the disposal of investments of a fund cannot be effected reasonably practicably or without prejudicing the interests of unitholders – such as in the case where a prime broker employed by a fund goes bankrupt, the settlement of the fund's investment would also be affected ; or
- (iv) the remittance of funds which will or may be involved in the redemption of, or in payment for, the investments of a fund or the subscription or redemption of units cannot, in the opinion of the manager, be effected at reasonable prices or reasonable rates of exchange – an example is when the Malaysian government imposed capital controls in September 1998, resulting in difficulty to repatriate funds from the market to meet client redemptions.

A decision to suspend is usually undertaken by the fund manager, in consultation with the trustee. The manager must immediately notify the SFC if dealing in units/shares ceases or is suspended. Any suspension must be published in the newspapers where the fund's prices are normally published. Depending on the length of the suspension, a fund may need to send a notice to its holders, explaining the necessity for the suspension.

The above related policies or rights are in accordance with the General Circular to SFC Approved Fund Management Companies dated 26th November 2001.

(Investment involves risk. Please refer to the offering document for further details including the risk factors.)

Hong Kong Investment Funds Association