

# COLLECTIVE INVESTMENT SCHEMES

## A Comparative Study

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Financial Literacy Task Force



Securities and Exchange Organization of Iran

# The Outline

- The purpose of the survey
- Issues to be clarified by the survey
- Necessity of Registration with the Regulatory Body
- Legal Structure of Investment Funds
- Classification of Investment Funds
- Statistics related to Investment Funds
- Main types of investment funds
- Main Organs of Investment Funds
- Procedure to Establish Investment funds
- Financial Literacy Related Initiatives
- Distinct Feature of ETFs: The Most Mentioned Reasons

# The Purpose of the Survey

Pursuant to the COMCEC Capital Market Regulators Forum meeting in 2018, a question raised in respect of popularity of Exchange Traded Funds (ETFs) among investors: “*Why ETFs have not taken into consideration by investors as regulatory bodies expected?*”

COMCEC CMR Forum participants blamed lack of financial literacy of investors as a reason.

how this claim might be proved?

A two years initiatives was planned

Assessing current status of investment funds

Assessment of financial literacy Level in respect of investment funds (particularly ETFs)

# Collective Investment Scheme

IOSCO

- “Collective Investment Scheme (CIS)” includes authorised or regulated open-ended investment funds that will redeem their units or shares, whether on a continuous or periodic basis. It also includes closed-ended funds whose shares or units are traded on regulated or organised markets.

CIS

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Collective  
Investment Funds

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Investment Funds  
or companies

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Mutual Funds

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# Issues to be clarified by the survey

Necessity of registration with the regulatory body;

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Legal structure of investment funds;

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Classification of investment funds;

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Main types of funds that can be structured in each jurisdiction;

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Overall demands of investors to invest in different types of investment funds;

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Main organs required to be used in investment funds;

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The regulatory bodies' strategy to promote financial literacy in respect of investment funds (particularly ETFs);

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The regulatory body's educational programs regarding investment funds;

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Procedure for registering an investment fund and the time period it will take;

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Regulators' point of view in respect of investment funds popularity

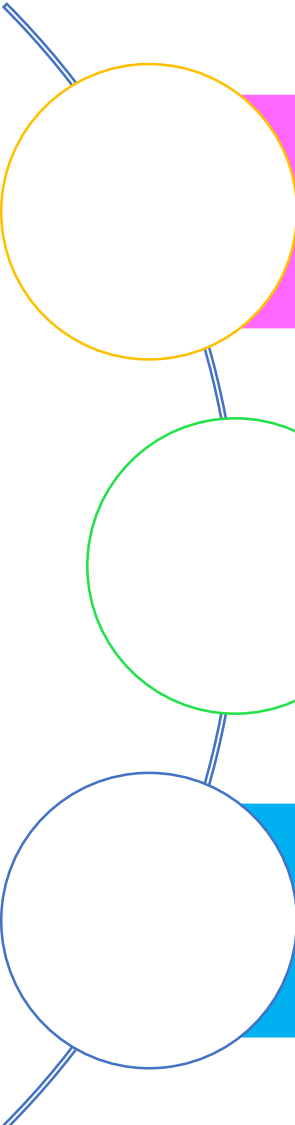
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# Respondents

	<b>Albania</b>
	<b>Bangladesh</b>
	<b>Emirate</b>
	<b>Iran</b>
	<b>Kuwait</b>

	<b>Malaysia</b>
	<b>Maldives</b>
	<b>Palestine</b>
	<b>Tunisia</b>
	<b>Turkey</b>

# Necessity of Registration with the Regulatory Body

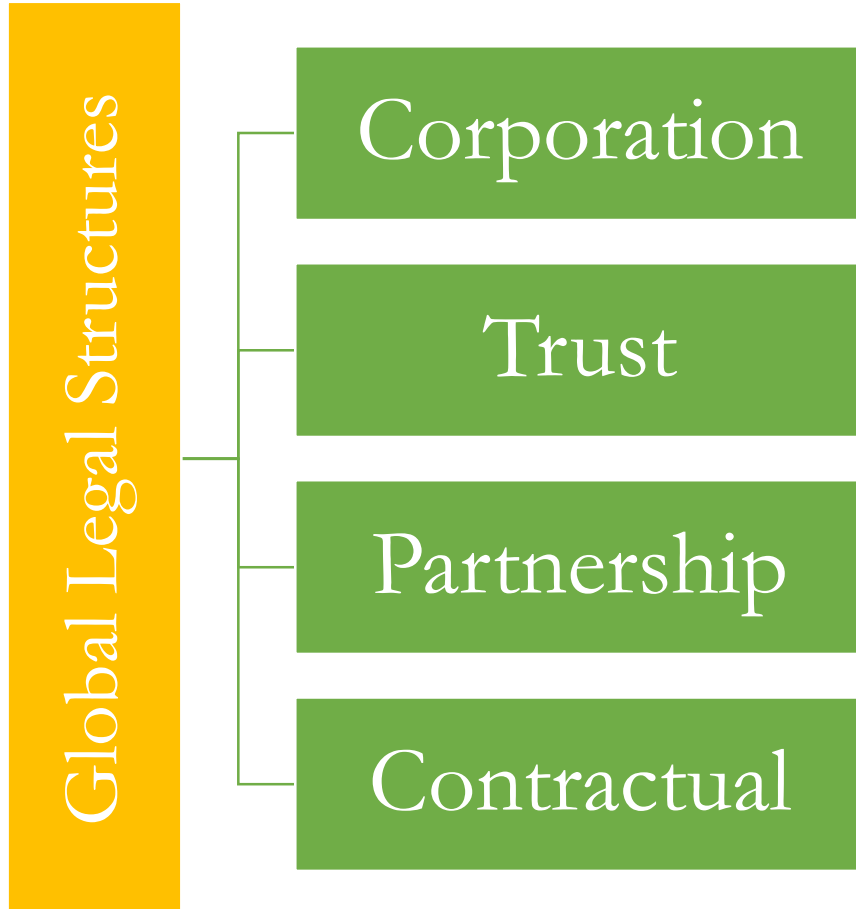


Globally, it is possible to launch non-regulated investment funds (particularly in case of alternative investment funds);

All investment funds must be registered with the regulatory body in responded jurisdictions.

Funds such as pension funds, hajj funds and Waqf funds are regulated by different organizations in Iran and Maldives. However, endowment funds that are considered as SRI Funds are regulated by the SEO in Iran.

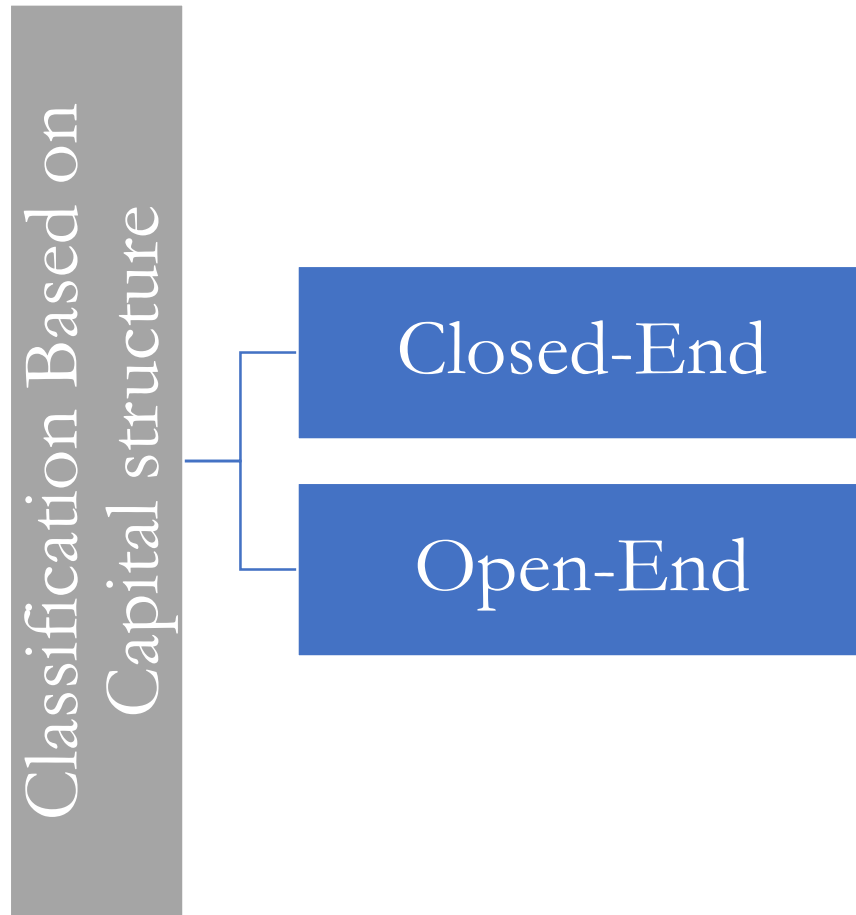
# Legal Structure of Investment Funds



<b>Contractual</b>	Albania, Emirate, Kuwait, Malaysia, and Turkey (50%)
<b>Investment fund as an independent legal entity</b>	Emirate, Iran and Kuwait (30%)
<b>Trust</b>	Bangladesh, Malaysia, Tunisia (30%)
<b>Corporation</b>	Palestine, Maldives, Tunisia and Turkey (40%)
<b>Limited Liability</b>	Palestine and Turkey (20%)
<b>Partnership</b>	Maldives (10%)
<b>Custodial Structure</b>	Malaysia (10%)



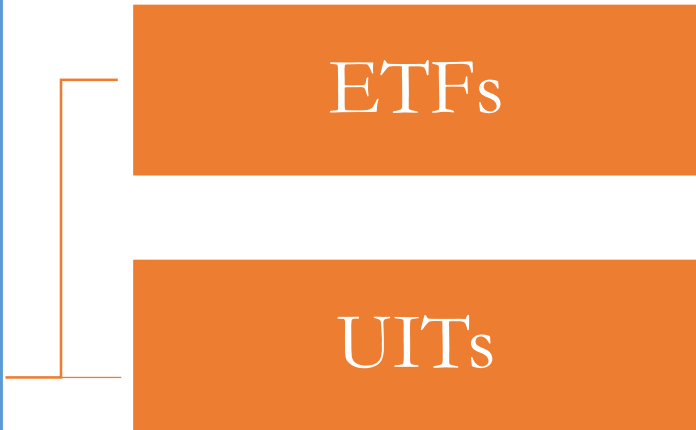
# Classification of Investment Funds



	Closed end	Open End
Albania	✓	✓
Bangladesh	✓	✓
Emirate	✓	✓
Iran	✓	✓
Kuwait	✓	✓
Malaysia	✓	✓
Maldives	✓	✓
Palestine	✓	✓
Tunisia	✓	✓
Turkey	Unreliable	✓
	90%	100%

# Classification of Investment Funds

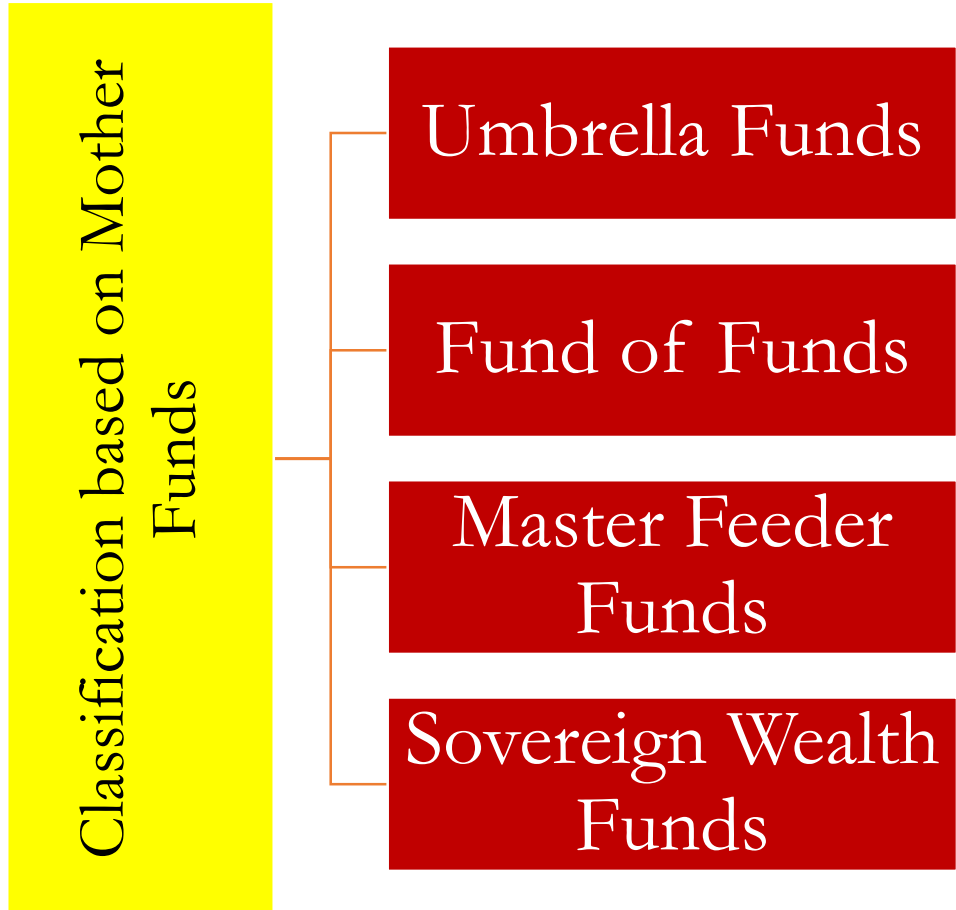
Classification based on following characteristics of both open end and closed end



Unit investment trusts (UITs) are registered investment companies with characteristics of both mutual funds and closed-end funds. Like mutual funds, **UITs issue redeemable shares**, and like closed-end funds, they typically **issue a specific, fixed number of shares**. But unlike either mutual funds or closed-end funds, UITs **have a preset termination date** based on the portfolio's investments and the UIT's investment goals. UITs **have a largely fixed portfolio**—one that is not actively managed or traded. Once the trust's portfolio has been selected, its composition may change only in very limited circumstances.

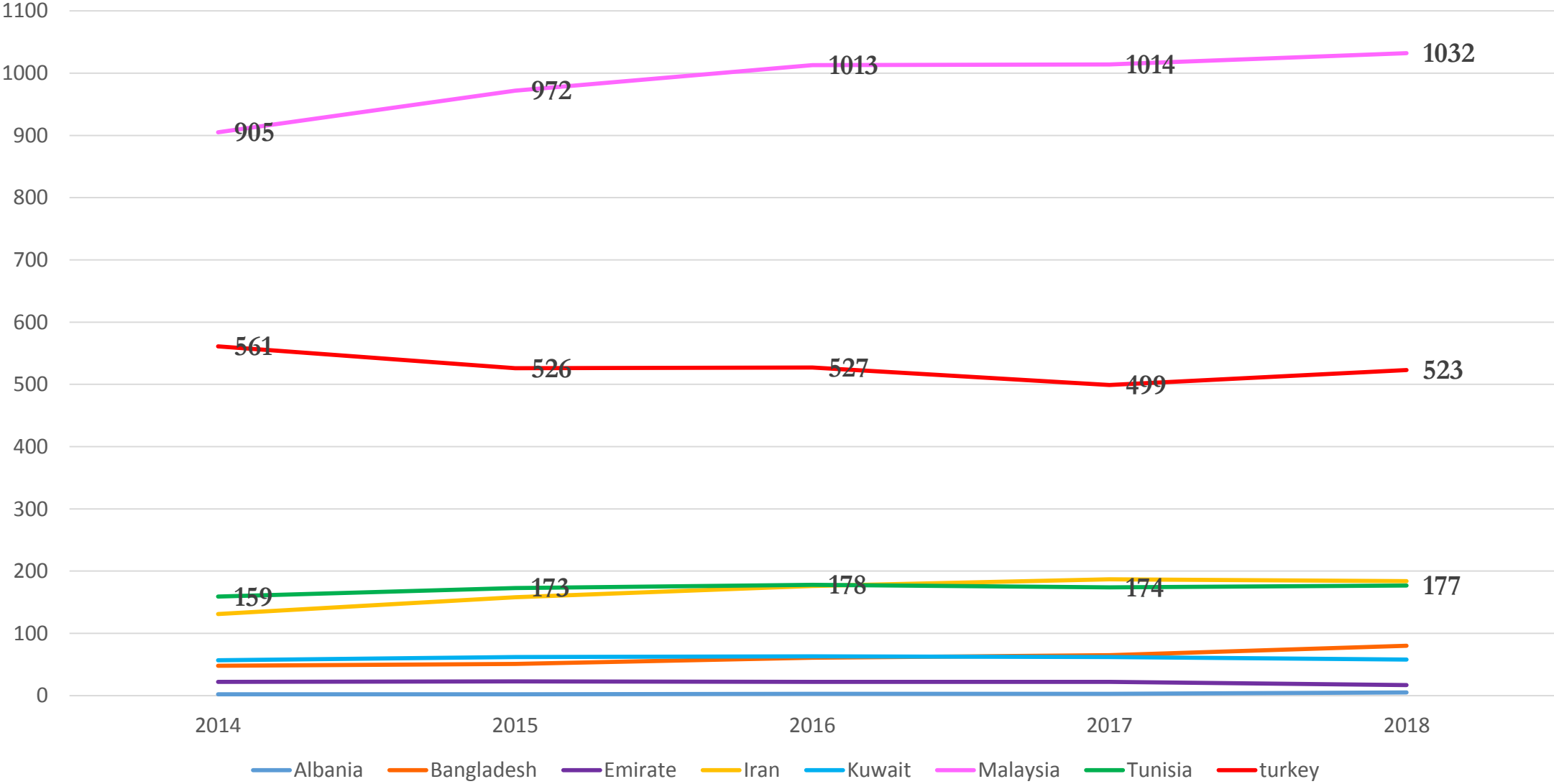
	ETFs	UITs
Albania		
Bangladesh	✓	
Emirate	✓	
Iran	✓	
Kuwait		
Malaysia	✓	✓
Maldives		
Palestine		
Tunisia		✓
Turkey	✓	
	50%	20%

# Classification of Investment Funds

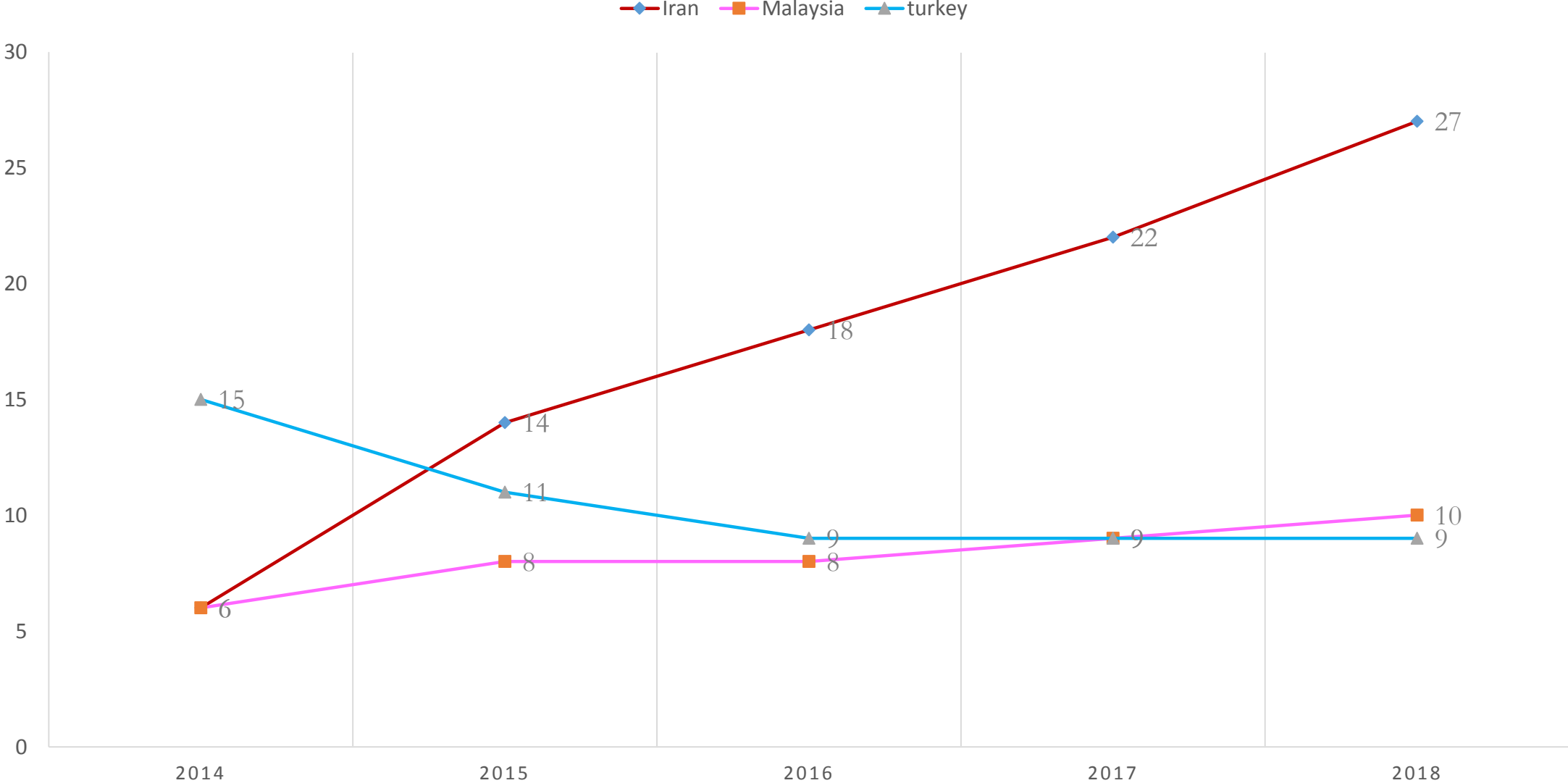


	UFs	FoFs	MFFs
Albania	✓		✓
Bangladesh			
Emirate	✓	✓	✓
Iran		✓	
Kuwait		✓	
Malaysia	✓	✓	✓
Maldives			
Palestine		✓	
Tunisia		✓	
Turkey	✓	✓	
	40%	70%	30%

# Number of Investment Funds (excluding ETFs)

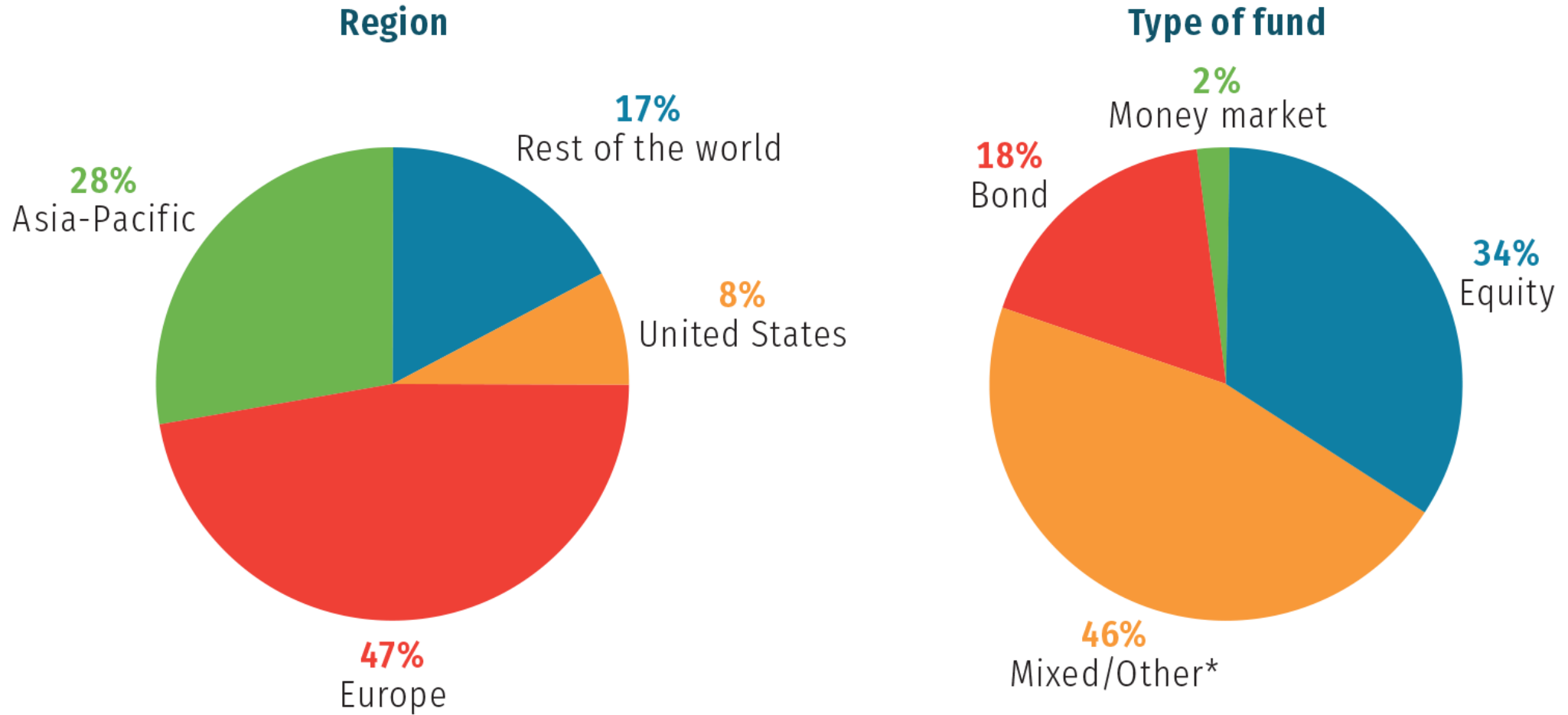


# Number of ETFs



# Number of Worldwide Regulated Open-End Funds

Percentage of funds by region or type of fund, year-end 2018



**Number of worldwide regulated open-end funds: 118,978**

# Number of Investment Companies by Type in the US

year-end 2018

	Mutual funds-	Closed-end funds	ETFs	UITs	Total
1999	7,970	512	30	10,414	18,926
2000	8,349	482	80	10,072	18,983
2001	8,480	490	102	9,295	18,367
2002	8,490	543	113	8,303	17,449
2003	8,406	581	119	7,233	16,339
2004	8,411	618	152	6,499	15,680
2005	8,439	635	204	6,019	15,297
2006	8,704	646	359	5,907	15,616
2007	8,723	664	629	6,030	16,046
2008	8,860	644	743	5,984	16,231
2009	8,594	629	820	6,049	16,092
2010	8,523	626	950	5,971	16,070
2011	8,662	634	1,166	6,043	16,505
2012	8,742	604	1,239	5,787	16,372
2013	8,970	601	1,332	5,552	16,455
2014	9,256	570	1,451	5,381	16,658
2015	9,515	561	1,644	5,188	16,908
2016	9,505	534	1,774	5,100	16,913
2017	9,354	533	1,900	5,035	16,822
2018	9,599	506	2,057	4,917	17,079

# Main Types of Investment Funds

Main Types of investment Funds

Stock Funds

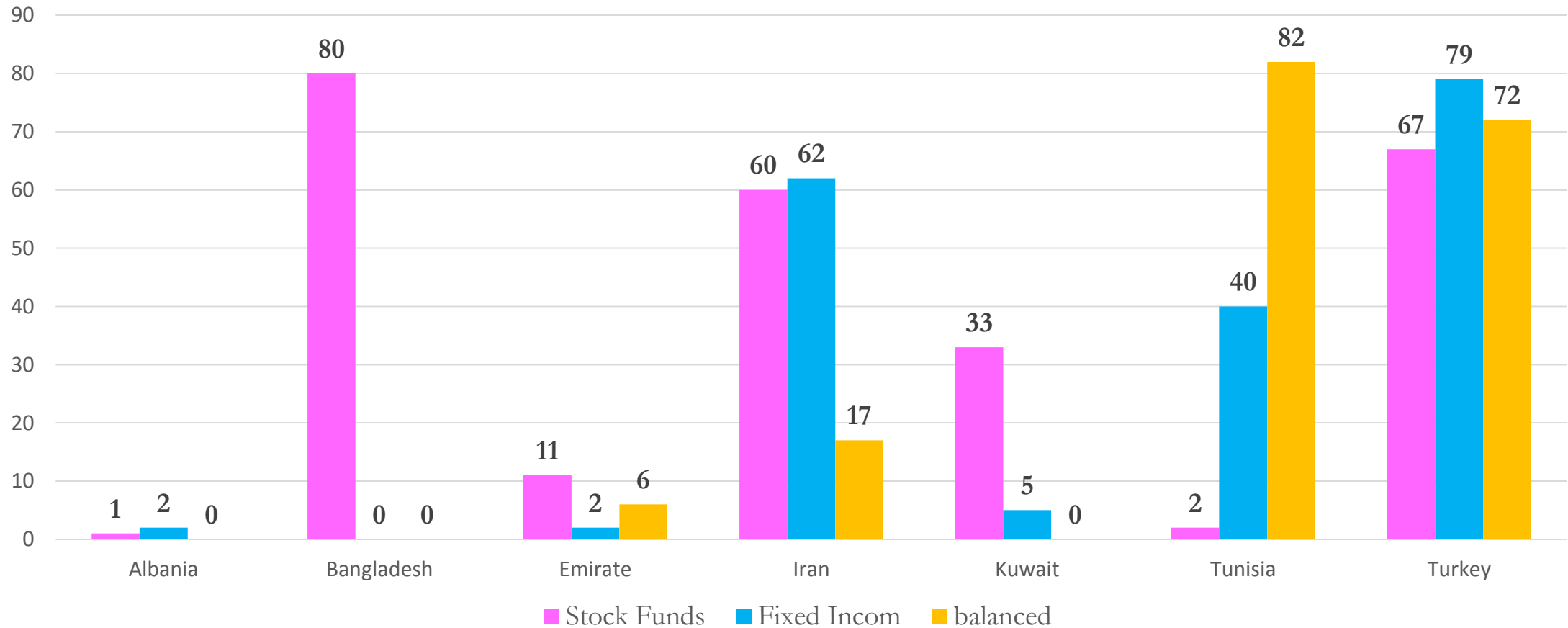
Bond Funds (Fixed income Funds)

Balanced Funds

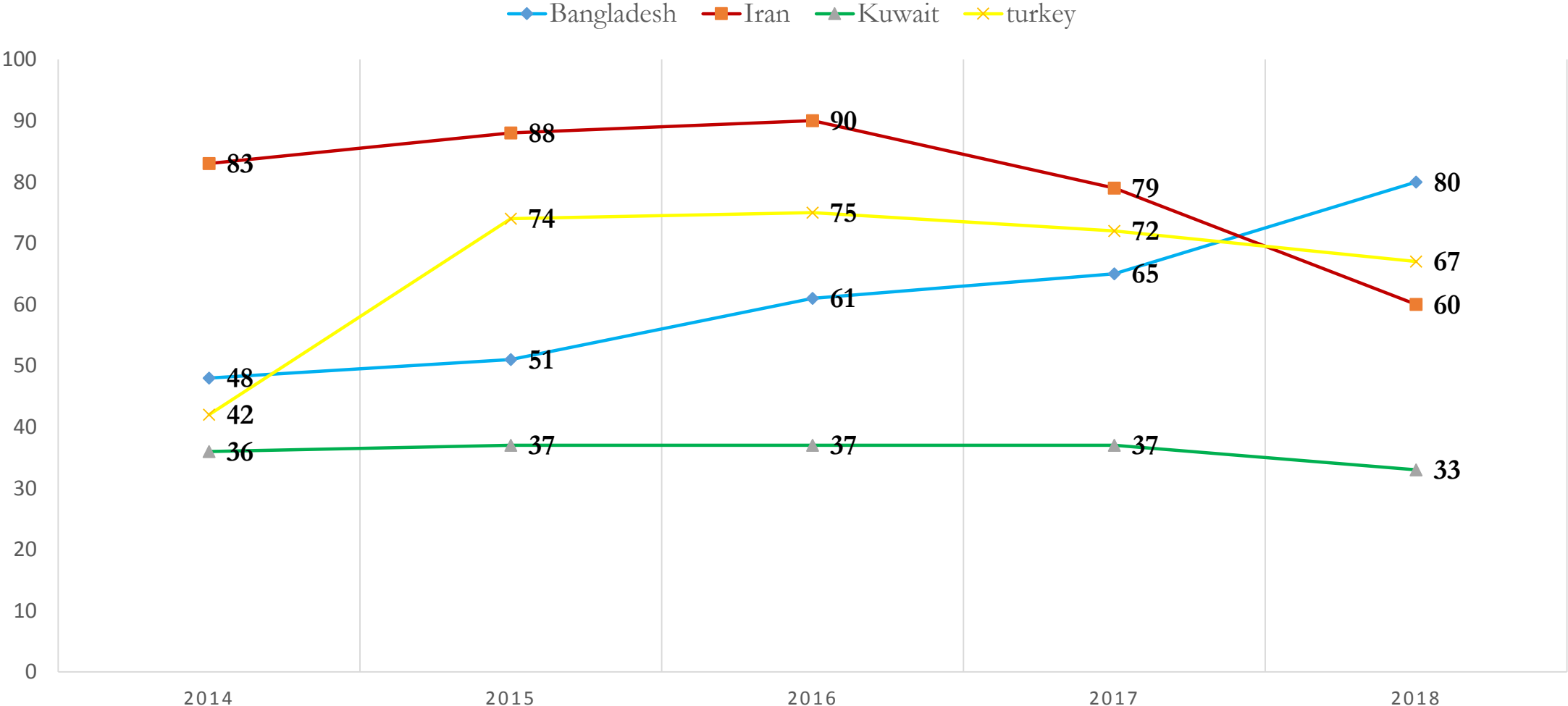
	Stock	Fixed Income	Balanced
Albania	✓	✓	
Bangladesh	✓		
Emirate	✓	✓	✓
Iran	✓	✓	✓
Kuwait	✓	✓	
Malaysia	✓	✓	✓
Maldives	NA	NA	NA
Palestine			
Tunisia	✓	✓	✓
Turkey	✓	✓	✓
	80%	70%	50%



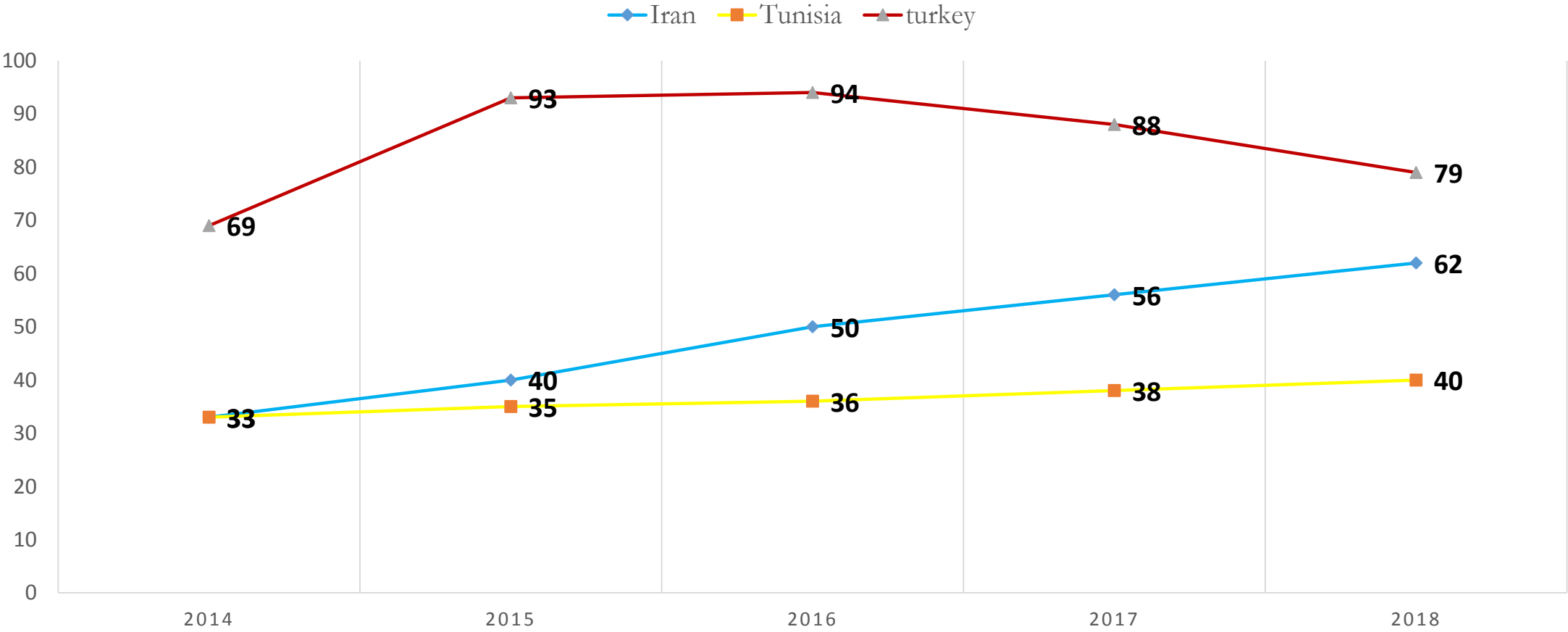
# Comparison between Number of Stock, Fixed Income and Balanced Funds in 2018



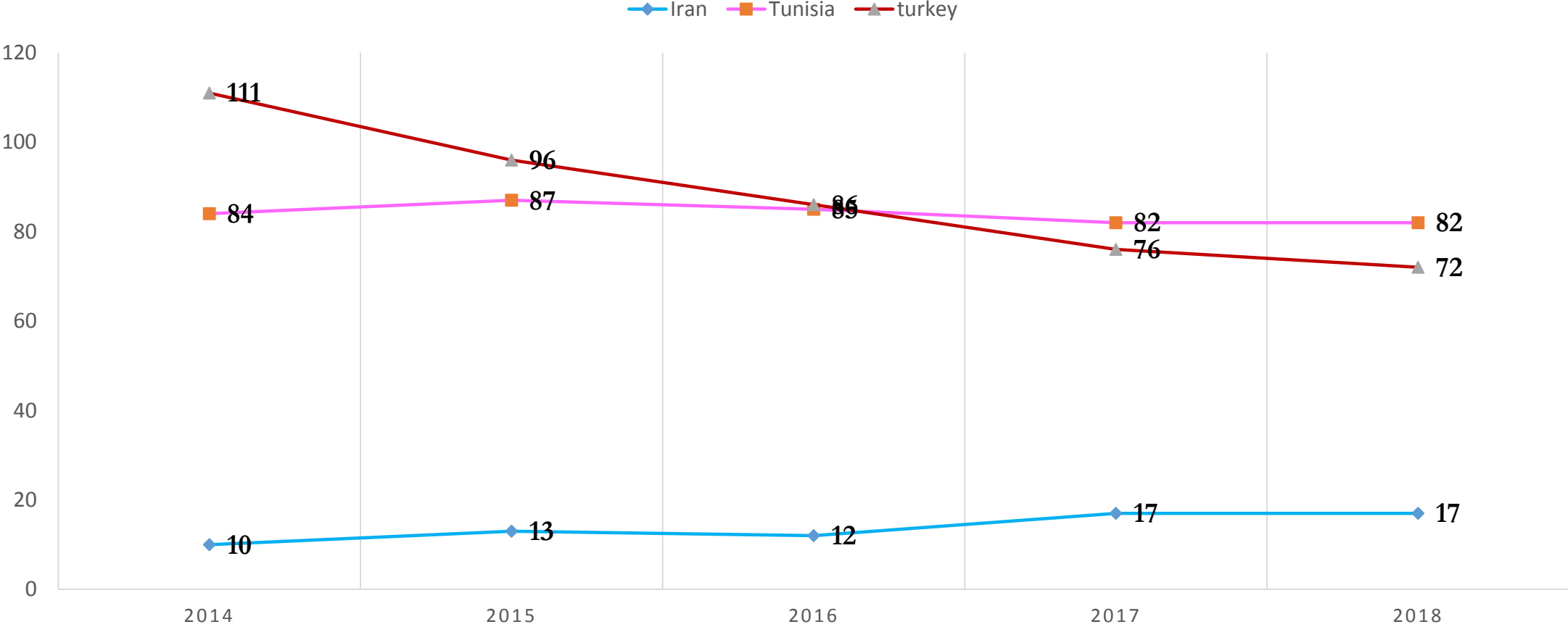
# Number of Stock Funds Since 2014



# Number of Fixed Income Funds since 2014



# Number of Balanced Funds Since 2014



# Number of Investment Funds in 2018

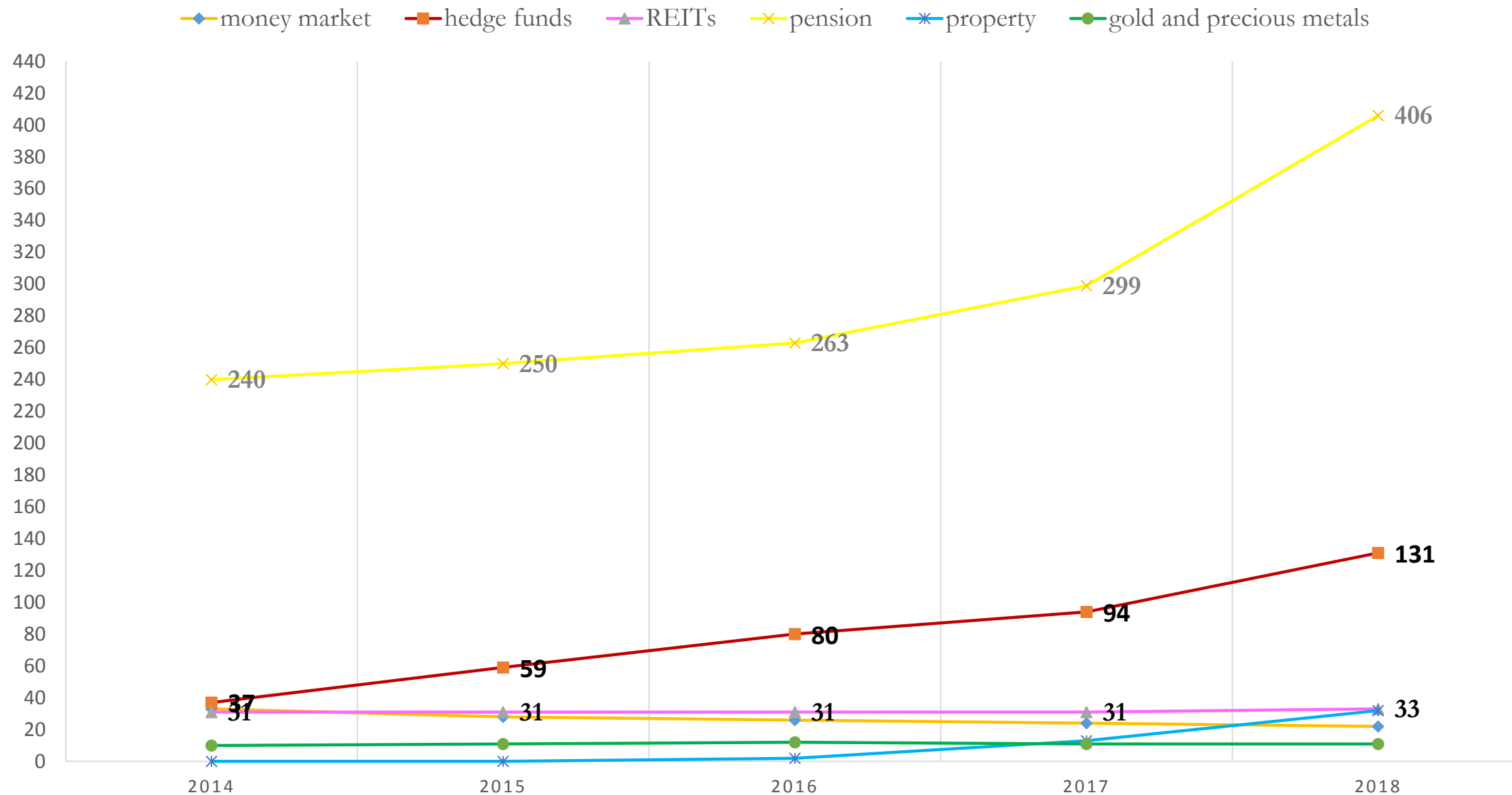
	Money Market	Hedge Funds	REITs	Project Funds	PEs	VCs	Gold Funds	Pension Funds	Property Funds	Currency Funds
Albania	-	-	-	-	-	-	-	-	-	-
Bangladesh	-	-	-	-	1	1	-	-	-	-
Emirate	-	-	-	-	1	-	-	-	1	-
Iran	-	-	✓	5	✓	5	4	-	-	✓
Kuwait	7	-	7	-	4	-	-	-	-	-
Malaysia	-	-	19	-	-	-	-	-	-	-
Palestine	-	-	-	-	-	-	-	-	-	-
<b>Tunisia</b>	✓	-	-	-	44	9	-	-	-	-
Turkey	22	131	33	-	14	14	11	406	32	-

✓ means the regulation exist but there has not launched any yet.

In some countries like Turkey, PE is a general term for both PE and VC.

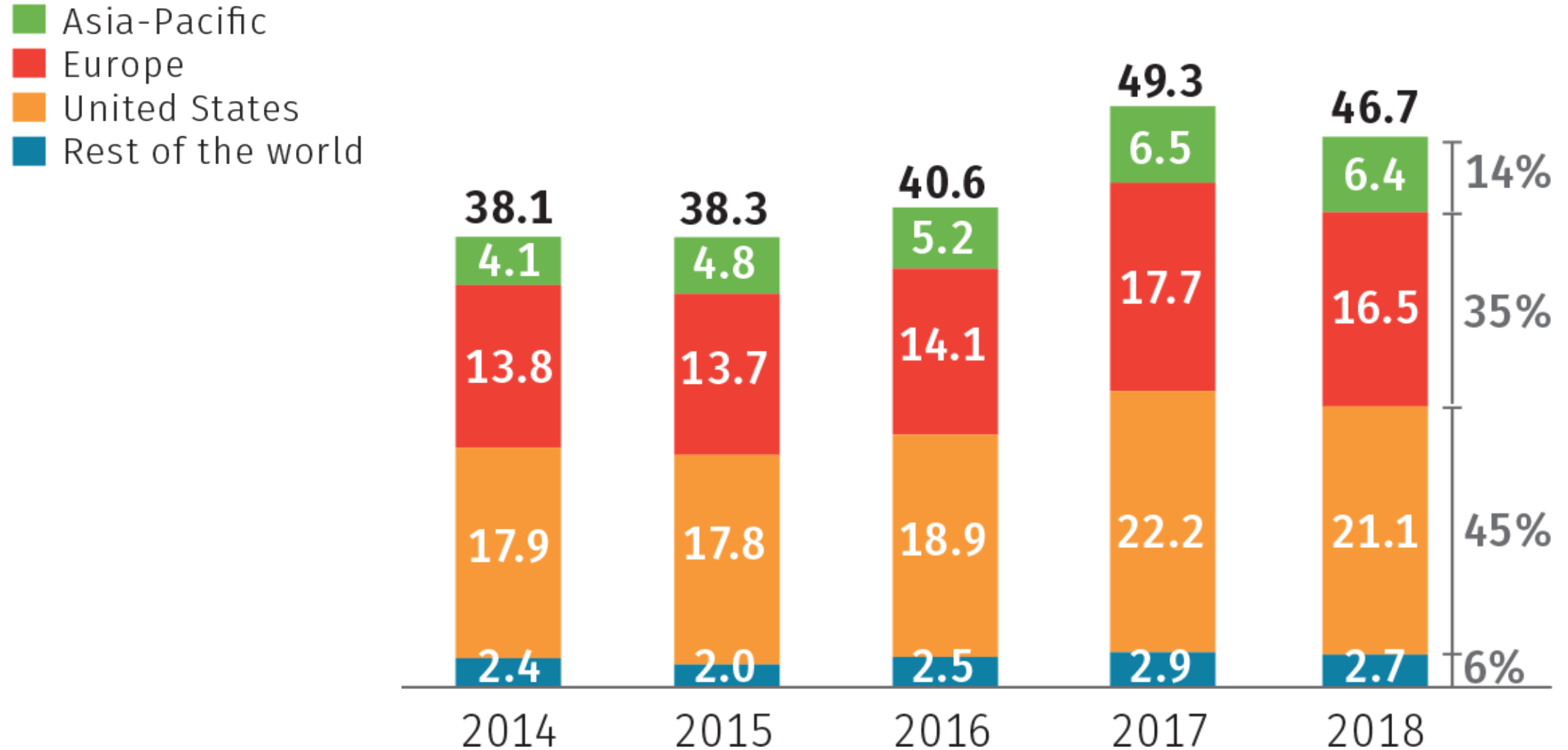
Maldives only mentioned takaful insurance funds

# Turkey as a Pioneer in Funds' Industry



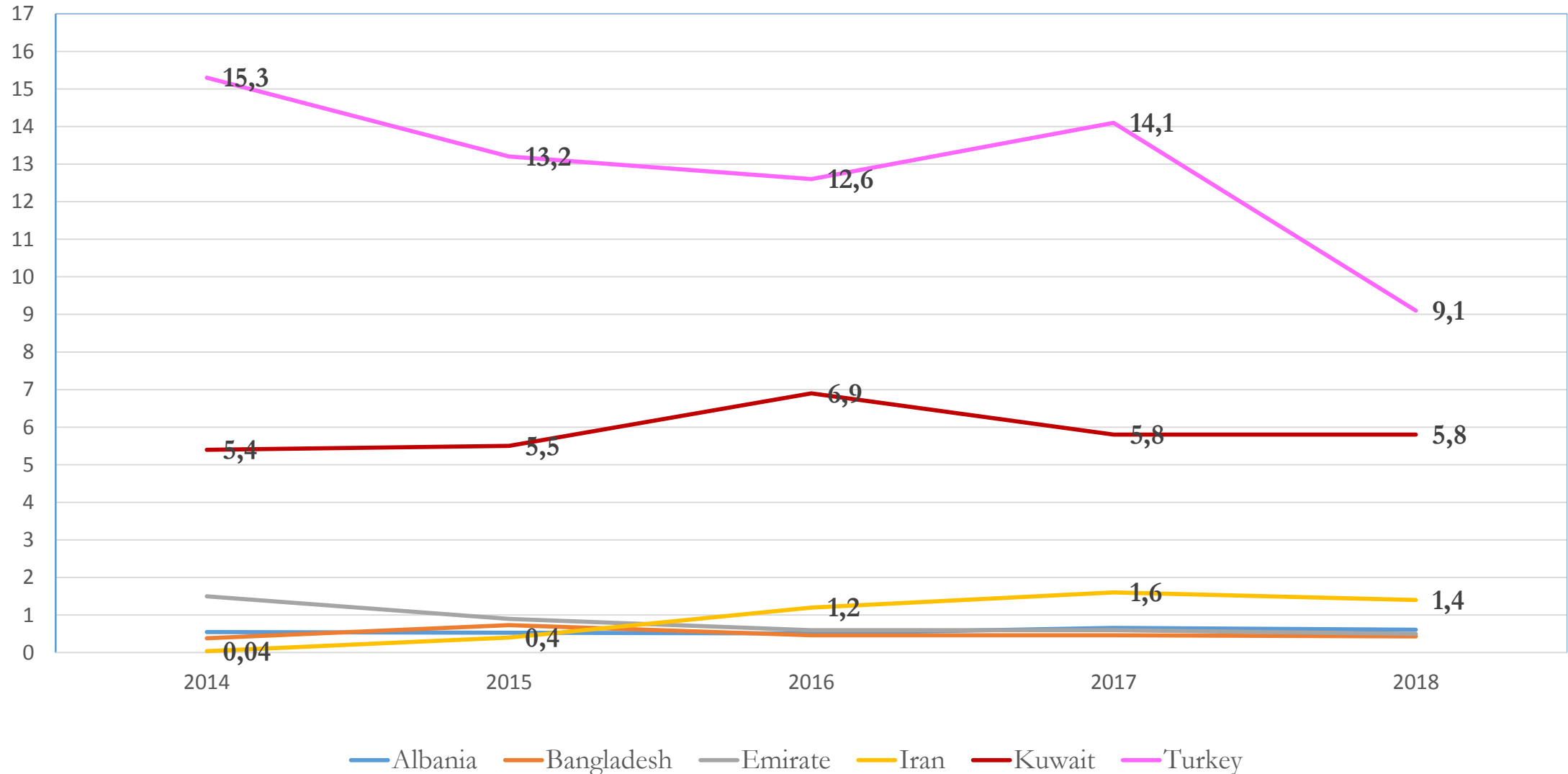
# Total Net Assets of Worldwide Regulated Open-End Funds

Trillions of US dollars by region, year-end 2018



# Total Net asset Value of Open End Funds (Excluding ETFs)

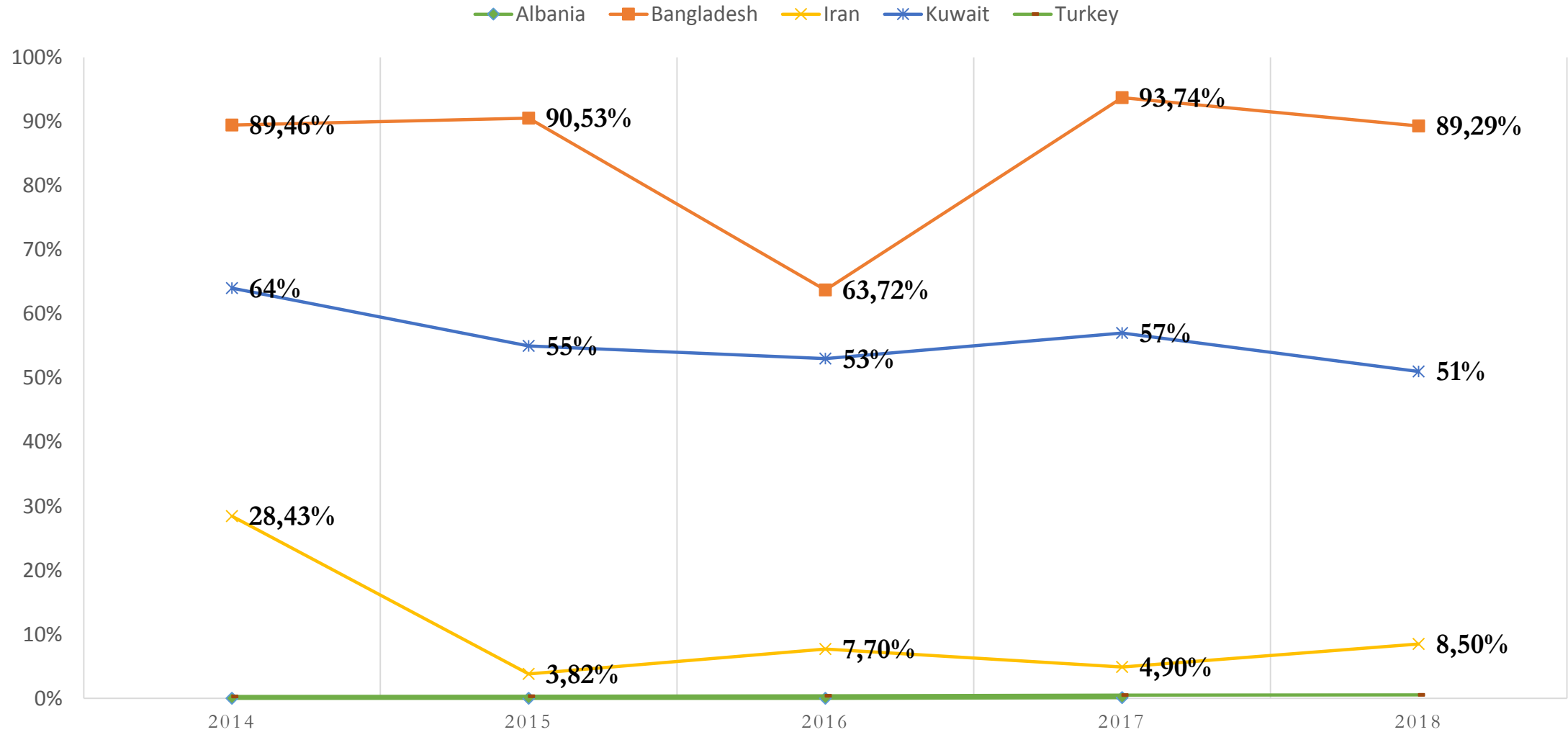
Billions of USD





# Open End Funds: Portion of Equity Investment

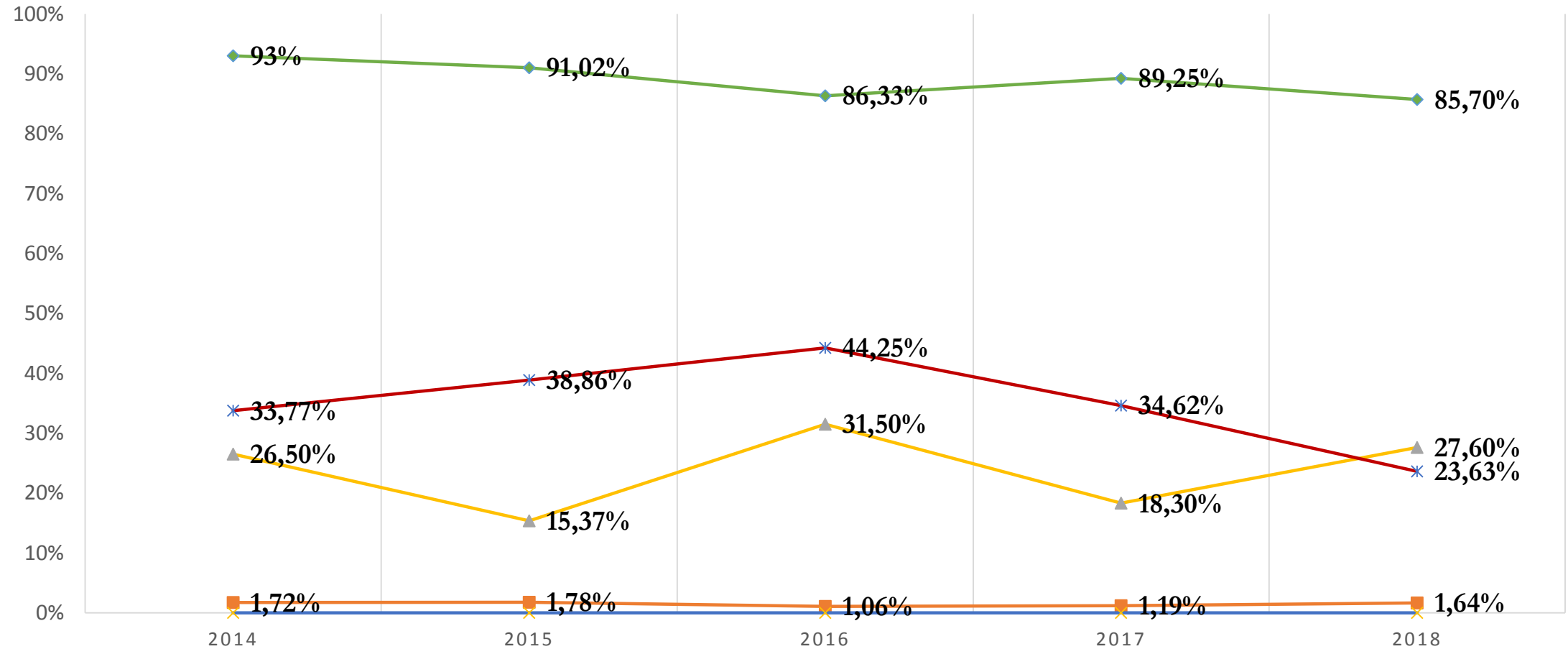
## EQUITY PORTION



# Open End Funds: Portion of Fixed Income Investment

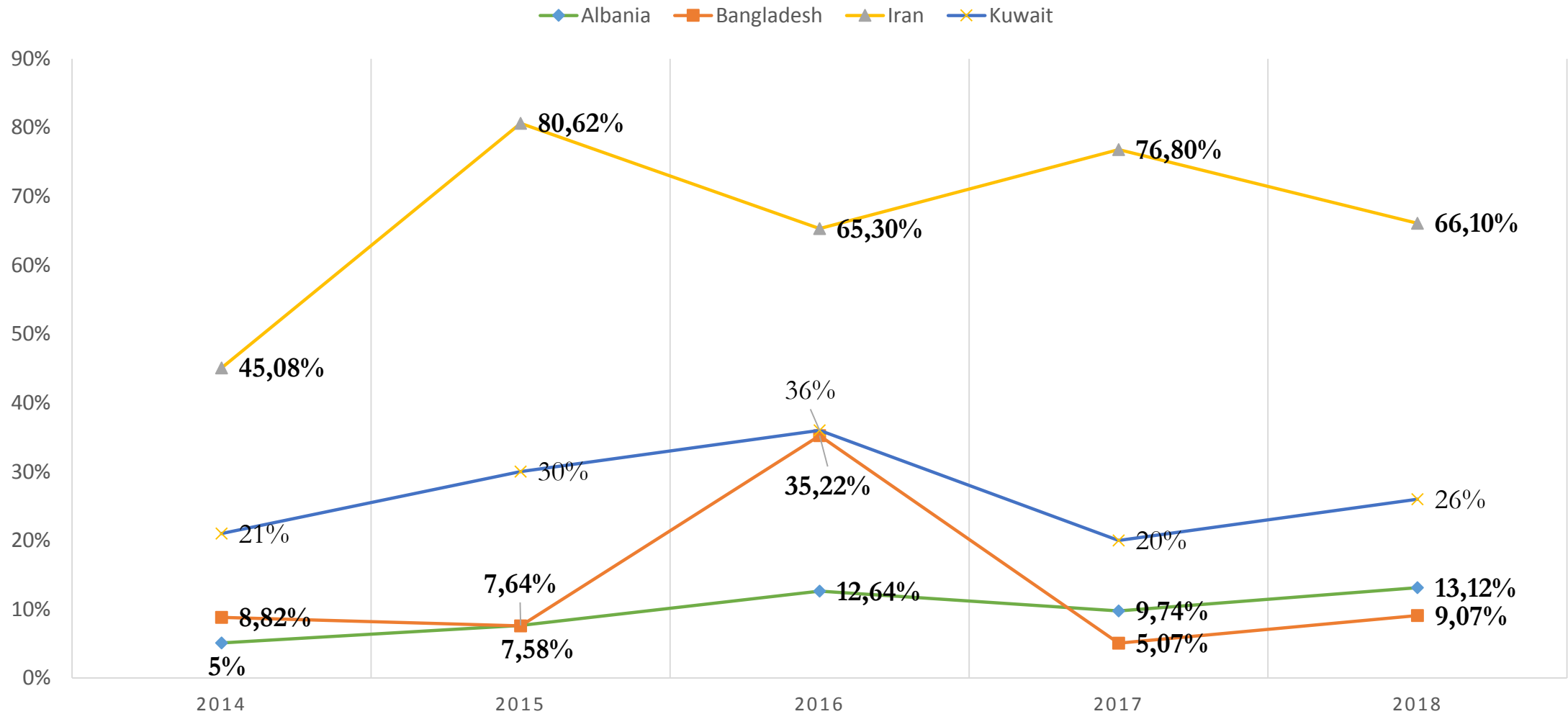
## FIXED INCOME PORTION

—◆— Albania —■— Bangladesh —▲— Iran —✕— Kuwait —\*— Turkey



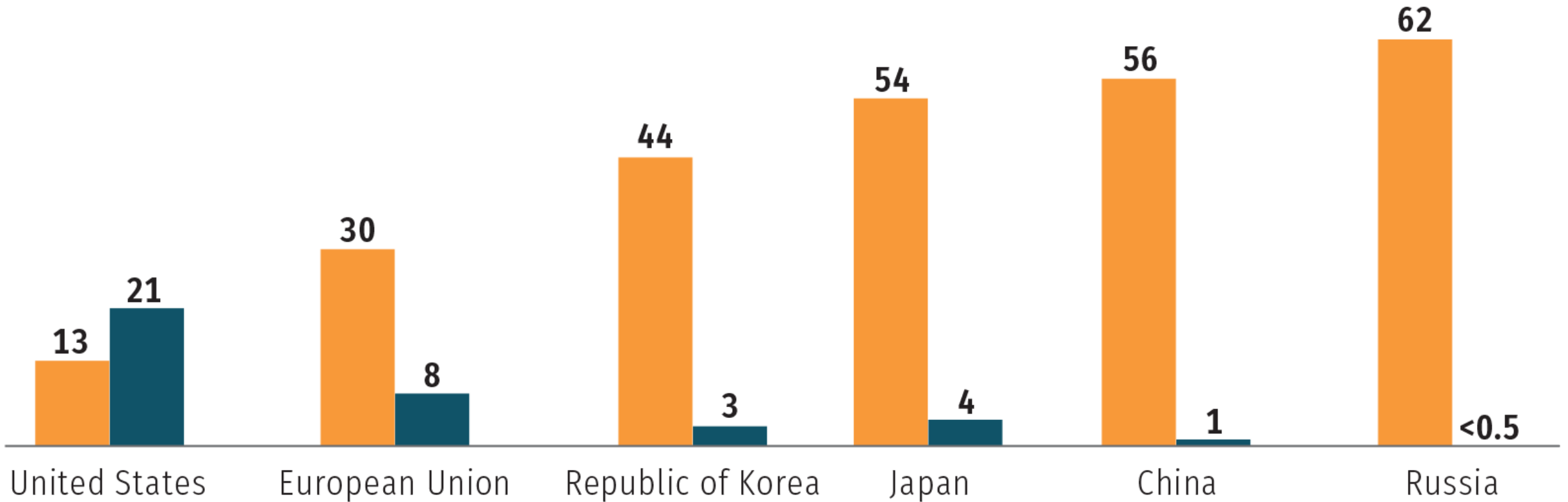
# Open End Funds: Portion of Cash and Bank Deposit

## CASH PORTION



# Percentage of households' financial wealth in regulated funds

Bank deposits and currency  
Regulated funds



## Specific Issues:

- More than 85 percent of funds assets in Albania are invested in fixed income instruments (since 2014)
- Stock funds in Bangladesh have invested around 90 percent in equity since 2014; however, this amount was around 63 percent in 2016 and 35 percent was kept as cash and bank deposit in similar year. In addition, fewer than 80 percent of closed end funds assets have been invested in equity and more than 20 percent kept as cash and bank deposit.
- In 2014, around 100 thousands of Iranians owned funds but in 2018 this increase dramatically to more than 2 million investors.
- The odd issue in Iran's open funds is that funds assets are mainly kept in cash and bank deposits.
- Unfortunately, responses to questions 6 to 9 are not reliable.

Main Organs Around the Glob

Sponsor/Founder

Investment Advisor

Administrator

Trustee or Counsel of Trustees

Custodian

Distributor/ Underwriter

Transfer Agent/ Registrar/ Paying Agent

Auditor

	Albania	Bangladesh	Emirate	Iran	Kuwait	Malaysia	Maldives	Palestine	Tunisia	Turkey
Sponsor/ Founder		✓	NA	✓	✓			NA	✓	✓
Investment Adviser			NA	✓			✓	NA		
Administrator	✓	✓	NA		✓			NA	✓	✓
Trustee or Counsel of Trustees		✓	NA			✓		NA		
Custodian	✓	✓	NA	✓	✓	✓		NA	✓	✓
Distributor/ Underwriter		✓	NA	✓				NA	✓	
Transfer Agent/ Registrar/ Paying Agent			NA	✓				NA		
Auditor	✓	✓	NA	✓	✓	✓		NA	✓	✓

Auditor and custodian are mandatory in almost all jurisdictions

Malaysia do not use investment advisor or administrator as manager of funds. It seems that trustee is considered as manager.

Kuwait and Tunisia consider Shariah advisor or board as an essential party

# Procedure to Establish Investment funds

	Procedure	Time frame
<b>Albania</b>	<ol style="list-style-type: none"> <li>1- Approval</li> <li>2- Regulator's resolution</li> <li>3- Registration with the regulator</li> </ol>	3 month
<b>Bangladesh</b>	<ol style="list-style-type: none"> <li>1- Licensing of parties;</li> <li>2- Approval of draft Trust Deed by the regulator;</li> <li>3- Issuance of registration certificates of investment funds;</li> <li>4- Approval of draft prospectus;</li> <li>5- Operation of the funds.</li> </ol>	40-45 working days
<b>Emirate</b>	It is only mentioned that funds must be approved and licensed by the regulator	30 days
<b>Iran</b>	<ol style="list-style-type: none"> <li>1- Initial approval of the regulator (specific department);</li> <li>2- Registration with Company Registration Office;</li> <li>3- Registration with the regulator (approval of the board);</li> <li>4- Underwriting and subscription;</li> <li>5- Operation license of the fund.</li> </ol>	60 working days

# Procedure to Establish Investment funds

	Procedure	Time frame
<b>Kuwait</b>	<ol style="list-style-type: none"> <li>1- Application for incorporation;</li> <li>2- If the application would be approved, a temporary license will be granted for 3 month;</li> <li>3- Launching the fund based on requirements and AoA;</li> <li>4- Final license.</li> </ol>	Undefined. It depends on the pipeline and the applicant's response to complete the requirements in a timely manner
<b>Malaysia</b>	NA	NA
<b>Maldives</b>	<ol style="list-style-type: none"> <li>1- Application for registration as a fund.</li> <li>2- Public offers are possible subject to listing requirement.</li> </ol>	10 days. All licenses are required to be issued within a maximum of 45 days (Calendar days).
<b>Palestine</b>	NA	30 days
<b>Tunisia</b>	<ol style="list-style-type: none"> <li>1- Application for license;</li> <li>2- The regulator's board resolution;</li> <li>3- Performing of the legal steps for fund setting up.</li> </ol>	3-4 months
<b>Turkey</b>	All funds have to be registered with the regulatory body. Establishment takes place when fund rules are entered in trade registry (following the approval of the )	10 working days (provided all the necessary documents are submitted properly)



# Financial Literacy Related Initiatives

	Albania	Bangladesh	Emirate	Iran	Kuwait	Malaysia	Maldives	Palestine	Tunisia	Turkey	
strategy to promote CISs	✓	✓	×	✓	×	✓	✓	✓	✓	✓	78%
Priority or preference (Particularly ETFs)	×	✓	×	×	×	×	×	✓	×	×	22%
Availability of Educational Programs	×	✓	×	✓	✓	✓	✓	✓	×	✓	67%

Bangladesh and Palestine are countries that have targeted ETFs. Tunisia has targeted seed funds, VCs and Money Market Funds.

Majority of respondents do not have any priority to differentiate funds promotion. It can be concluded that ETFs are behaved as other funds.

Most mentioned delivery methods are Website, workshops, and books (or brochures).

# Distinct Feature of ETFs: The Most Mentioned Reasons



Liquidity

Trade on exchange like common stocks

Lower operational costs

ETFs trade intra-day on quoted price, whereas mutual funds trade at end-of-day NAV

Although these can be mentioned as ETFs characteristics, they are attributable to both closed end and open end funds as well.

The main feature of ETFs is that they have characteristics of both open end and closed end funds

The Development of ETFs is not only related to investors but also sponsors or founders

Thank you  
for your attention

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