

**FINANCIAL SERVICES REGULATORY AUTHORITY**  
**سلطة تنظيم الخدمات المالية**

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## **Fund Rules**

\*In this attachment underlining indicates new text and striking through indicates deleted text.

**PART 1: INTRODUCTION**

**1. APPLICATION AND CLIENT CLASSIFICATION**

**1.1 Application**

1.1.1 These Rules apply to every Person who carries on, or intends to carry on, in or from the Abu Dhabi Global Market the Regulated Activities of:

- ~~(a)~~ Managing Assets;
- (b) Managing a Collective Investment Fund;
- (c) Acting as the Administrator of a Collective Investment Fund;
- ~~(d)~~ Providing Custody; or
- (e) Acting as Trustee of an Investment Trust.

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**3. FUND CRITERIA**

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**3.3 Domestic Fund criteria**

3.3.1 (1) A Domestic Fund shall be constituted as a Public Fund if:

- (a) some or all of its Units are or will be offered to investors by way of a public offer; or
- (b) its Unitholders include Retail Clients.

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3.4 The different types of Domestic Funds

This table illustrates the different Rules applicable to the three categories of Domestic Fund.

The Fund Rules Chapters	Public Fund	Exempt Fund	QIF
Chapter 1: Application and Client Classification	✓	✓	✓

The Fund Rules Chapters	Public Fund	Exempt Fund	QIF
Chapter 2: Arrangements Not Constituting a Fund	✓	✓	✓
Chapter 3: Fund Criteria	✓	✓	✓
Chapter 4: Specialist Classes of Funds	✓	✓	✓
Chapter 5: Excluded Offers	✓	✓	✓
Chapter 6: Domestic Funds	✓ Rule 6.2 does not apply	✓ Rule 6.1 does not apply	✓ Rule 6.1 does not apply
Chapter 7: Foreign Funds and Foreign Fund Managers	✓	✓	✓
Chapter 8: Regulator Notification	✓	✓	✓
Chapter 9: Marketing of Domestic Funds and Prospectus Disclosure	✓ Rules 9.5.2 and 9.5.4 do not apply	✓ Rules 9.5.1 and <del>9.5.3</del> does not apply	✓ Only Rules 9.1.1, 9.2, 9.3, 9.4.1, 9.4.2, 9.5.2, 9.5.4, 9.6.1, 9.7 & 9.8 apply
<del>Chapter 10: Marketing of Foreign Funds and Prospectus Disclosure</del>	<del>✓</del>	<del>✓</del>	<del>✓</del>
Chapter 11: Constitution	✓	✓	✓ Only Rules 11.1.1, 11.1.2(1)(a), 11.1.2(1)(c), 11.1.2(1)(d), 11.1.2(1)(e), 11.1.3(1)(b), 11.1.3(2) and 11.1.5 apply

The Fund Rules Chapters	Public Fund	Exempt Fund	QIF
Chapter 12: Management and Operation of a Fund	✓	✓	✓ Only Rules 12.1, 12.2, 12.3.1, 12.3.2(1), <u>12.3.2(2)(a)</u> , 12.3.3, 12.3.4, 12.3.5, 12.3.6, 12.3.7(b), 12.3.8, 12.3.9, 12.3.10, 12.3.12(1), 12.4.1(b) and 12.10.1 and the Guidance to Rule 12.12.2 apply
Chapter 13: Requirements Specific to Public Funds and Real Estate Investment Trusts	✓	<u>Rule 13.5 will apply to a REIT operating as an Exempt Fund</u>	<u>Rule 13.5 will apply to a REIT operating as a QIF</u>
Chapter 14: Requirements Specific to Exempt Funds		✓	
Chapter 15: Requirements Specific to Qualified Investor Funds			✓

The Fund Rules Chapters	Public Fund	Exempt Fund	QIF
Chapter 16: Accounting, Audit and Periodic Reporting of a Fund	✓	<p>✓</p> <p>A comparative table as set out in Rule 16.4.8 for the annual report is not required.</p> <p>Rules 16.3.8 and 16.4.5(a) <u>and (b)</u> need not be complied with if a waiver is obtained pursuant to Rule 16.3.9</p>	<p>✓</p> <p>Rules on interim reports do not apply unless there has been a material change during the interim accounting period. A comparative table for the annual report is not required</p> <p>Rules 16.3.8 and 16.4.5(a) <u>and (b)</u> need not be complied with if a waiver is obtained pursuant to Rule 16.3.9</p>
Chapter 17: Fund Administrators	✓	✓	<p>✓</p> <p>Rule 17.1.4 does not apply</p>
Chapter 18: Transfer Schemes Relating to Domestic Funds	✓	✓	✓
Chapter 19: Winding Up of Domestic Funds	✓	✓	✓
APP 1: Delegation and Outsourcing	✓	✓	
APP 2: Meeting Procedures	✓		
APP 3: Approvals and Notifications	✓		
APP 4: Guidance on Asset Valuation and Pricing	✓	✓	
APP 5: Constitution of a Domestic Fund	✓	✓	
APP 6: Guidance of Fitness and Propriety for Oversight Functions	✓		

The Fund Rules Chapters	Public Fund	Exempt Fund	QIF
APP 7: Public Fund Prospectus Disclosure	✓		
APP 8: Recognised Jurisdiction List	✓	✓	✓

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## 6. DOMESTIC FUNDS

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### Requirements for registration

6.1.4 Subject to the provisions of these Rules, a Fund will only be registered by the Regulator if it satisfies the following conditions:

- (a) the ~~incorporation registration~~ or other legal formalities relating to the formation of the Fund are completed;

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### Rejection of an application

#### Guidance

Under Section 109 of the FSMR, the Regulator may refuse to grant an application for the registration of a Fund if it is not satisfied that the requirements referred to in Section ~~107~~<sup>107.129</sup> of the FSMR have been met.

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## 7. FOREIGN FUNDS AND FOREIGN FUND MANAGERS

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### Appointment of Fund Administrator/Trustee/Custodian

7.1.2 (1) A Foreign Fund Manager to whom this Chapter applies must:

- (a) ensure that there is appointed to the Fund a Fund Administrator or a Trustee licensed by the Regulator or such other administrator ~~or trustee~~ as is otherwise acceptable to the Regulator (hereafter referred to as the "Appointed Fund Administrator" or "Appointed Trustee") before commencing the management of that Fund;
- (b) ensure that there is appointed to the Fund an Eligible Custodian before commencing the management of that Fund; and
- (c) either itself procure, or require the Appointed Fund Administrator or Appointed Trustee to (and for this purpose grant to that Person such powers as are necessary to), facilitate:
  - (i) if it is an open-ended Fund, the issue, resale and redemption of the Units of the Fund and the publication of the price at which such issue, resale or redemption will occur in accordance with these Rules and the Constitution;
  - (ii) ....

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## **7.2 Authorisation Requirements for Authorised Fund Managers of Foreign Funds**

### **Regulator Notification**

7.2.1 An Authorised Fund Manager to which this Chapter applies must give notice to the Regulator of its intention to manage a Foreign Fund by submitting a notification to the Regulator as soon as reasonably practicable before launch in accordance with the requirements of this Chapter.

The notification shall be in such form as the Regulator may prescribe and should be submitted together with the most recent versions of:

- (a) the constitution of the Foreign Fund;
- (b) the offering document (or equivalent) relating to the Foreign Fund; and
- (c) such other required information as the Regulator may from time to time prescribe.

The Authorised Fund Manager shall, as part of its notification, evidence that the requirements of Rule 7.2.3 and Rule 10.1.6 have been met or will, by the time that the Authorised Fund Manager commences management of the Foreign Fund, be met.

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## PART 4: MARKETING OF DOMESTIC AND FOREIGN FUNDS

### Guidance

1. Section 168 of the FSMR contains the restrictions on general prohibition against the financial promotion of Units in a Fund by any person other than an Authorised Person, and Schedule 2 of the FSMR specifies the limited circumstances in which such a person may market Units in a way that does not breach the general prohibition. In addition, these Rules prescribe that an Authorised Person may not market a Unit in the Abu Dhabi Global Market unless:
  - a. a Prospectus that complies with any relevant requirements in the FSMR and these Rules is made available to the person to whom the Offer is made;
  - b. a notification is provided to the Regulator in compliance with these Rules;
  - c. the Person marketing the Unit is an Authorised Person whose Financial Services Permission authorises it to do so; and
  - d. the Offer of a Unit is made in accordance with the applicable requirements in the FSMR or these Rules.

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## 8. REGULATOR NOTIFICATION

### 8.1 Regulator Notification

(1) An Authorised Person must, within 30 days of commencing marketing any Fund in or from the Abu Dhabi Global Market, notify the Regulator of certain details relating to the Fund, being:

- (a) the name of the Fund;
- (b) the structure and type of vehicle of the Fund; and
- (c) the investment policy and strategy of the Fund.

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## 9. MARKETING OF DOMESTIC FUNDS AND PROSPECTUS DISCLOSURE

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### Application

9.1.1 (1) This Chapter applies, subject to (4), to a Fund Manager of a Domestic Fund, and each Director or partner of the Fund Manager and, if it has a Governing Body, each member of that body.

(2) This Chapter also applies (to the extent stated herein) to an Authorised Person, and each of its Directors or partners, where such a Firm is not the Fund Manager and undertakes the marketing of Units of a Domestic Fund.

(3) This Chapter also applies to other specified Persons to the extent so specified.

(4) Only this Rule and the following requirements in this Chapter apply to, or in relation to, a Qualified Investor Fund:

(a) Rule 9.2;

(b) Rule 9.3;

(c) Rules 9.4.1 and 9.4.2;

(d) Rule 9.5.2;

~~(e) Rule 9.5.4;~~

~~(f)~~ Rule 9.6.1;

~~(g)~~ Rule 9.7; and

~~(h)~~ Rule 9.8.

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### Mandatory statement

9.5.3 (1) A Fund Manager of a Public Fund or an Exempt Fund must include in the Fund's Prospectus, the following statement displayed prominently on its front page:

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9.5.4 (1) A Fund Manager of an Exempt Fund must prominently disclose to prospective Unitholders in the Prospectus and any other financial promotions relating to the Fund, the following Mandatory Fund Disclosure Statement:

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## 10 MARKETING OF FOREIGN FUNDS AND PROSPECTUS DISCLOSURE

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### 10.1.3 ...

(d) includes the following warning:

"The Financial Services Regulatory Authority of the Abu Dhabi Global Market Regulator accepts no responsibility for reviewing or verifying any Prospectus or other documents in connection with this Fund.

The Units to which this Prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers should conduct their own due diligence on the Units.

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### **Recommendation-Based Offers of Units of Foreign Funds**

10.1.6 An Authorised Fund Manager or Authorised Person may not recommend ~~make an Offer~~ of a Unit of a Foreign Fund to a particular Retail Client unless it has made an assessment of the suitability of the investment for that Retail Client in accordance with COBS Rule 3.4.2 and has a reasonable basis for recommending the investment in the Fund as suitable for the particular Retail Client.

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## 12 MANAGEMENT AND OPERATION OF A FUND

### 12.1 General management duties

#### Application

12.1.1 (1) This Chapter applies to a Fund Manager and, if appointed, the Trustee of a Fund, except as provided in (3) or where otherwise provided in this Chapter.

(2) This Chapter also applies, where expressly provided, to a Fund Administrator or Eligible Custodian of a Domestic Fund.

(3) Only this Rule and Rules 12.2, 12.3.1, 12.3.2(a), 12.3.3, 12.3.4, 12.3.5, 12.3.6, 12.3.7(b), 12.3.8, 12.3.9, 12.3.10, 12.3.12(1), 12.4.1(b), 12.10.1 and the Guidance to Rule 12.12.2 in this Chapter apply to, or in relation to, a Qualified Investor Fund.

#### Guidance

1. Rule 12.2.1 requires the Fund Manager to manage the Fund in accordance with the Fund's Constitution and its most recent Prospectus and to perform the functions conferred on it by the Constitution, these Rules and the FSMR. In doing so, the Fund Manager is required under this Rule to comply with any conditions or restrictions on its Financial Services Permission as well as any limitations or requirements imposed by or under these Rules and the FSMR.

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3. The requirements in this Chapter apply to Foreign Fund Managers in the same manner as they apply to Authorised Fund Managers of Domestic Funds, unless otherwise provided. Foreign Fund Managers and Foreign Funds attract additional requirements, which are set out in Chapter Rule 7.

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12.3.2 (1) In the case of any Fund other than an Investment Trust, the Fund Manager is responsible to the Unitholders for ensuring the safekeeping of the Fund Property in accordance with these Rules.

(2) Without removing the generality of the obligation under (1), and subject to Section 12.3.3 below a Fund Manager must, unless it is both impracticable and disproportionate to do so, in the case of a Fund structured other than as an Investment Trust:

- (a) delegate the Regulated Activity of Providing Custody in relation to the Fund Property to a Service Provider who is an Eligible Custodian; and
- (b) comply with the delegation procedures set out in Rule 12.12 in relation to such a delegation.

**Guidance**

1. Rule 12.3.3 below sets out the circumstances in which a Fund Manager of a Domestic Fund would not be required to appoint an Eligible Custodian.
2. Rule 12.12 governs the power of a Fund Manager to delegate certain of its Regulated Activities, and to outsource its functions.
3. Rule 12.3.2(1) is not intended to confer strict liability for the safekeeping of Fund Property on a Fund Manager.
4. In addition to Chapter 12, Rule 15.3 sets out the requirements applicable to a Fund Manager of a Qualified Investor Fund in relation to custody of Fund Property.

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**Eligible Custodian and Fund Administrator**

12.3.7 (1) A Fund Manager to whom this Chapter applies must:

- (c) ensure that there is appointed to the Fund a Fund Administrator, or, if the Fund is an Investment Trust, or a Trustee licensed by the Regulator or such other administrator ~~or trustee~~ as is otherwise acceptable to the Regulator (hereafter referred to as the "Appointed Fund Administrator" or "Appointed Trustee"); and
- (d) subject to Rules 12.3.2 and 12.3.3 ensure that there is appointed to the Fund an Eligible Custodian,

before commencing the management of that Fund.

**Guidance**

A Fund Manager of a Domestic Fund may be able to perform fund administration for the Fund in circumstances where risk management and portfolio functions are adequately separated (Rule 12.3.10).

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**Use of prime brokers**

12.3.9 A Fund Manager of a Fund may only grant to a prime broker authority to combine the assets of the Fund with any other assets held by or available to the prime broker as collateral for any financing activities to be undertaken by the prime broker where, and so long as, all the following conditions are met:

- (a) the Fund is an Exempt Fund or Qualified Investor Fund;
- (b) the Prospectus of the Fund contains, in addition to the disclosure required under Rule 9.5 49, the following mandatory disclosure and warnings:

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**Allocation of payments to capital or income**

12.13.7 (1) The Fund Manager and the Trustee or the Persons providing the oversight function may agree that all or any part of any permitted payments, charges and expenses of the Fund may be treated as a capital expense or income expense and allocated to the capital account or income account respectively.

(2) The Fund Manager must ensure that any agreement in (1) is permitted by the Constitution and specified in the Prospectus in sufficient detail for a Unitholder or a prospective Unitholder to make an informed decision in relation to the allocation of such charges and expenses to be paid from the capital property or the income property as the case may be.

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**13. REQUIREMENTS SPECIFIC TO PUBLIC FUNDS AND REAL ESTATE INVESTMENT TRUSTS**

**13.1 Application**

13.1.1 (1) This Chapter applies to a Fund Manager and Trustee of a Domestic Fund which is a Public Fund, and also to Persons providing the oversight function for such a Fund, unless Rule 13.1.1(2) applies.

(2) A Fund Manager and Trustee of a Public Fund are not subject to the oversight requirement in (1) if the Fund's investments are limited to those that require passive management and the Fund's systems and controls contain adequate measures to address any risks arising in that context.

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### 13.5 Real Estate Investment Trusts (REITs)

13.5.1 (1) A Fund Manager, or any other Authorised Person making an Offer of a Unit of a Domestic Fund or otherwise marketing a Domestic Fund, must not include the term "Real Estate Investment Trust" or "REIT" or refer to a Fund or otherwise hold out a Fund as being a Real Estate Investment Trust or a REIT, unless it is a ~~Public~~ Property Fund which complies with (2).

(2) A REIT is a ~~Public~~ Property Fund which:

- (a) is primarily aimed at investments in income-generating Real Property;
- (b) distributes to the Unitholders at least 80% of its audited annual net income; and
- (c) if at any time during the operation of the Fund the requirements in Rule 13.5.1(2)(a) or (b) are not met, the Fund Manager, and, if appointed the Trustee, must immediately notify the Regulator ~~and the exchange~~ of the failure to meet the requirements in these Rules and what measures have been or will be taken to remedy the breach.

13.5.2 (1) A Fund Manager of a REIT must ensure that it distributes to the Unitholders as dividends each year an amount not less than 80% of its audited annual net income.

(2) In the case of a REIT which is a Public Fund, ~~the~~ the persons providing oversight functions in respect of the Fund must determine if any:

- (a) revaluation surplus credited to income, or
- (b) gains on disposal of Real Property,

shall form part of net income for distribution to Unitholders.

(3) In the case of a REIT which is an Exempt Fund or a Qualified Investor Fund, the Fund Manager must make the determination in (2).

(4) A REIT which is a Public Fund must be either listed on an exchange or open-ended.

13.5.3 Where a REIT holds any Real Property via one or more Special Purpose Vehicles, the Fund Manager must ensure that each Special Purpose Vehicle distributes to the Fund all of its net income as permitted by the laws and regulations of the jurisdiction where the Special Purpose Vehicle is established.

13.5.4 (1) A Fund Manager of a REIT must ensure, subject to (2), that any investment made in respect of property under development whether on its own or in a joint venture is undertaken only where the REIT intends to hold the developed property upon completion.

(2) The total purchase price and development cost of the property under development in (1) must not exceed 30% of the net asset value of the Fund Property of the REIT.

(3) For the purposes of this Rule 13.5.4, the Regulator would not consider property development activities to include refurbishment, retrofitting and renovation.

13.5.5 (1) A Fund Manager of a REIT may borrow either directly or through its Special Purpose Vehicles an amount not exceeding up to 65% of the total gross asset value of the Fund.

(2) Upon becoming aware that the borrowing limit set out in 13.5.5(1) has been exceeded, the Fund Manager shall:

(a) immediately inform Unitholders and the Regulator of the details of the breach and the proposed remedial action;

(b) use its best endeavours to reduce the excess borrowings;

(c) not permit the Fund to engage in additional borrowing; and

(d) inform Unitholders and the Regulator on a regular basis as to the progress of the remedial action.

**Guidance**

Remedial action may not require the disposal of Fund assets to pay off part of the borrowings where such disposal would be prejudicial to the interest of Unitholders.

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**15.3 Custody of Fund Property**

15.3.1 (1) The Fund Manager of a Qualified Investor Fund that is not an Investment Trust must ensure that the legal title to Fund Property is registered with an Eligible Custodian.

(2) The requirement in (1) does not apply in relation to Fund Property where it is impracticable and disproportionate to comply with that Rule given the nature of the Fund and its assets, provided that the Fund Manager has in place effective arrangements which ensure that the Fund Property is not available to creditors in the event of the insolvency of the Fund Manager.

**Guidance**

Regardless of who holds title to Fund Property, the Fund Manager must always ensure that, in accordance with Rule 12.2.2(12)(f), Fund Property is clearly identified as such and held separately from property of the Fund Manager and any other Funds.

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16.4.2 (1) A Fund Manager must produce the required annual report and interim report as follows:

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~~(7) The Fund Manager must prepare the annual and interim reports of the Fund in accordance with Rule 16.4.2.~~

~~(8)~~ The reports must:

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