



BANGKO SENTRAL NG PILIPINAS
OFFICE OF THE GOVERNOR

CIRCULAR NO. 1178
Series of 2023

Subject: Guidelines on the Use of Benchmarks for Unit Investment Trust Funds (UITFs)

The Monetary Board, in its Resolution No. 988 dated 27 July 2023, approved the amendments to Section 414/414-Q and Appendix 56/Q-33 of the Manual of Regulations for Banks (MORB)/Manual of Regulations for Non-Bank Financial Institutions (MORNBFI), to provide guidelines on the use of benchmarks in presenting the returns of UITFs.

Section 1. Section 414/414-Q of the MORB/MORNBFI as amended by Circular No. 1152 dated 5 September 2022, is hereby further amended to read, as follows:

414/414-Q UNIT INVESTMENT TRUST FUNDS

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Admission and redemption requirements xxx

Guidelines on the Selection of Benchmarks for UITFs. Benchmarks allow UITF participants to fairly assess whether a fund is overperforming or underperforming vis-à-vis a relevant market index or a portfolio with a comparable return-risk profile. As such, the trustee's presentation of fund performance shall be based on the principles of fair representation and full disclosure.

The trustee shall include in its policies and procedures the following:

- a. Process for the selection and approval of a benchmark;
- b. Process for the periodic review of the continuing appropriateness of the chosen benchmark and the criteria for changing the benchmark; and
- c. Contingency plan in the event that the benchmark becomes unavailable or is fundamentally changed (i.e., there has been a change that would result in a significantly different benchmark value).

A valid benchmark for a UITF has the following characteristics:

- a. Has a clearly defined objective;
- b. Appropriately reflects the market or sector it aims to represent;

- c. Is comprised of sufficiently diversified financial instruments that are liquid;¹
- d. Is objectively and consistently calculated;
- e. Is a total return benchmark;² and
- f. Reflects returns that are net of taxes.

In cases when the appropriate benchmark for a UITF does not satisfy Item(s) "e" and/or "f", the trustee shall disclose the same in the KIIDS.

During the selection and approval process, the trustee shall:

- a. Ascertain that the chosen benchmark:
 - (1) Reflects the investment mandate, objective, or strategy of the UITF; and
 - (2) Possesses the characteristics of a valid benchmark.

In cases when there are misalignments between the risk-return profile and/or characteristics of the UITF and those of the benchmark, the choice of the benchmark in view of the misalignments must be reasonably justified and duly approved by the trustee's board of directors; and

- b. Ensure that the underlying securities of the benchmark are identifiable and priced in accordance with Bangko Sentral guidelines or international financial reporting standards on the valuation of assets.

The trustee may use a benchmark managed or administered by its related party as defined under Sec. 131/131-Q: *Provided*, That the trustee is able to ascertain that there are effective arrangements in place to manage conflicts of interest. These include controls to ensure that neither party exerts influence over the activities of the other party. The trustee shall likewise determine that the benchmark administrator has an effective governance structure, and adequate policies and procedures to manage existing and potential conflicts of interest. At the minimum, these shall cover:

- a. Robust governance arrangements, including a clear organizational structure with well-defined, transparent and consistent roles and responsibilities;
- b. Sound internal controls, including procedures to ensure the integrity and reliability of employees determining the benchmark;
- c. Adequate policies and procedures on conflicts of interest that are subject to regular review and updating; and
- d. Proper disclosure of all existing and potential conflicts of interest to the users of the benchmark.

¹ Such that the price movement or trading activity of each component security cannot unduly influence the benchmark returns

² Total return is the rate of return that includes the realized and unrealized gains and losses plus income during the period.

Provided, further, That the trustee shall conduct a periodic assessment of the continued effectiveness of the established arrangements. *Provided, finally,* That the trustee shall make available, upon request of the Bangko Sentral, the documents used by the trustee to verify the compliance of the benchmark administrator with Items "a" to "d" above.

Minimum disclosure requirements

- a. ***Key Information and Investment Disclosure Statement (KIIDS).*** This document shall contain the key features of the UITF, the fund performance against a benchmark, and the fund's prospective and outstanding investments. It shall use plain language presented in a concise manner and shall comply with the guidelines in Appendix 56/Q-33. This document shall be updated and made available to participants at least every calendar quarter and made publicly available not later than forty-five (45) calendar days from the reference period.

In presenting the fund performance against a benchmark, the following minimum information shall be disclosed in the KIIDS:

- (1) The description and key characteristics of the benchmark, and its use relative to the fund's objective or investment strategy (e.g., whether the fund aims to track the performance of the benchmark or to outperform the same);
- (2) For a customized benchmark (i.e., a benchmark created by the trustee via the combination of multiple benchmarks), the description of each component benchmark and its corresponding weight as well as the rebalancing frequency, if any;
- (3) If the benchmark is managed or administered by a related party of the trustee as defined under Sec. 131/131-Q, how the trustee and the benchmark manager/administrator manage existing and potential conflicts of interest;
- (4) If there are misalignments between the risk-return profile and/or characteristics of the UITF and those of the benchmark, the reason/s for and the extent of the misalignments; and
- (5) If there has been a change in the benchmark, the date the benchmark was changed, as well as the description of and reason for the change in the benchmark. These details and the illustrative presentation of performance against the old and new benchmarks shall be disclosed in the KIIDS for a minimum of one (1) year from the date of adoption of the new benchmark.

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Section 2. Appendix 56/Q-33 of the MORB/MORNBF I is hereby amended to read, as follows:

GUIDE IN PREPARING THE KEY INFORMATION AND INVESTMENT DISCLOSURE STATEMENT FOR UNIT INVESTMENT TRUST FUNDS
(Appendix to Sec. 414/414-Q on Minimum disclosure requirement)

1. The Key Information and Investment Disclosure Statement (KIIDS) provides unit investment trust fund (UITF) participants with key information and disclosures to facilitate better understanding and comparison of UITFs offered by trust entities (TEs). As such, the required information under the *Minimum Disclosure Requirements* and the *Guidelines on the Selection of Benchmarks for UITFs* in Sec. 414/414-Q and this Appendix shall be clearly stipulated in the KIIDS and not relegated to linked sources.
2. The KIIDS shall be concise and provide accurate information. The text shall be written in Arial style with font size 10 or its equivalent while the disclosures enumerated below shall be in capital letter and in bold font:

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6. xxx. The KIIDS shall give a fair and balanced view of the investments and the UITF's returns. The trustee shall ensure that no material information is omitted.
7. The trustee shall include a link to a website or document(s) from which participants can obtain additional information on the benchmark (e.g., a description of the composition of securities and calculation methodology) and the benchmark administrator, as applicable.
8. The trustee shall likewise provide a link to additional explanatory materials on the features of the fund, if deemed appropriate.

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Section 3. Transitory Provision. The provision below shall be added as a footnote to Section 414/414-Q of the MORB/MORNBF I under the *Guidelines on the Selection of Benchmarks for UITFs*:

Trust entities shall be given one (1) year from the effectivity of this Circular to conduct a review of the benchmarks of all existing funds to determine their propriety and validity in accordance with these guidelines; and to make appropriate changes to their policies, processes, procedures and Key Information and Investment Disclosure Statements to comply with these Guidelines.

Section 4. Effectivity. This Circular shall take effect fifteen (15) calendar days following its publication in the Official Gazette or in any newspaper of general circulation in the Philippines.

FOR THE MONETARY BOARD:



ELI M. REMOLONA, JR.
Governor

AUG 09 2023 2023

Circular on Guidelines on the Use of Benchmarks for Unit Investment Trust Funds (UITFs)