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12 questions to ask before investing

Who regulates your investment vehicle?

"Regulations force people to do better"
– Jay Leno

As an investor, you may not consider regulation as an important part of your investment process. However, regulators are critical in ensuring that your investment is safe by defining the parameters within which your fund manager and investment companies may operate. In Ghana, our investments are regulated by the **Securities and Exchanges Commission (SEC)** and the **Bank of Ghana.** The SEC regulates shares traded on the Ghana Stock Exchange and collective investment schemes (i.e., mutual funds and unit trusts) in Ghana while the Bank of Ghana regulates Treasury Bills and Bonds, even though they can be purchased through the Brokerage arms of an investment bank.

What is regulation and what does a regulator do?

Regulation refers to the rules and laws operating in the investment industry that asset managers must follow and the ongoing oversight and enforcement of these rules. The work of the regulator is, therefore, twofold: first, ***the regulator stipulates laws that govern all investment vehicles*** and secondly, ***regularly monitors to see if the laws are being adhered to.***

Let's look at how the SEC regulates investment vehicles in Ghana, for example. Before you can establish a scheme or manage the investment portfolio of a scheme, you must be registered (licensed) by the SEC. The registration requirements enable the SEC to ensure that each operator, dealer, or adviser is qualified to act on behalf of investors. Each Scheme is also expected to present a prospectus of how the investment works to the SEC and provide investors with a summary (called the Scheme Particulars). They are also to provide investors with ongoing statements and reports on how the investment is faring. Additionally, the SEC stipulates how funds can be held and remuneration for fund managers. The Securities and Exchange Commission does this at the onset and regularly throughout the year.

Why is regulation important?

Like our national laws, the primary aim of regulation is to protect the individual. In this case, that would be protecting the investor from risk and fraud. Imagine an investment space without a regulator: anyone can set up a fund management company and take your money. The fund managers can choose to invest anywhere and end up making bad investments. If there is no law that protects you, you run the risk of losing your hard-earned money due to the negligence of the fund manager. The fund manager could deceive you by promising you an incredibly high rate and, because he/she cannot provide it, will resort to illegal means to pay you or disappear with your money.

Regulation also ***ensures that the investment space is safe and sound.*** It prevents asset management companies from taking unnecessary risk and helps to keep capital flowing freely throughout the market. An asset management company offering fixed-income mutual funds, for example, will be guided to invest in fixed-income instruments, and not equity which affect the stability of the returns.

The regulator and you

Before you invest, you need to find out if the asset management company is registered with the regulators. You also need to know if they are in compliance with the SEC and you can find this out at www.sec.gov.gh/licensees. Remember that because a fund manager is compliant today doesn't mean it will always be the case, so do well to check regularly. You can also speak to the regulator if you have any concerns about the way your funds are being managed.

At Databank, we ensure that we adhere to the laws and guidelines stipulated by the regulator because we recognize the importance of regulation to us as an asset management company. More importantly, we know that by adhering to these rules, your money at Databank is invested in a safe manner that allows you to benefit from the investment. For more information on our mutual funds, financial statements and reports, visit www.databankgroup.com.

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