

MUTUAL FUNDS ASSOCIATION OF PAKISTAN

# Code of Ethics & Standards of Professional Conduct for Asset Management Companies (Awaiting SECP's Approval)

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## 1. Definitions

- 1.1. **“Asset Management Company”**“AMC” or a **“Collective Investment Scheme”**“CIS” means an institution, a corporation or an organization that is registered with MUFAP to undertake, on behalf of a person or group of person(s) the management of a portfolio of securities for the purposes of investment; An AMC or CIS can also be referred to as **“Management Company”** “MC”;
- 1.2. **“Associate Membership”** means individuals or organizations which apply for and are granted Associate Membership of MUFAP as provided in Article 5 (b) of the Memorandum and Articles of Association of MUFAP;
- 1.3. **“Code”** means this Code of Ethics and Standards of Professional Conduct for the mutual funds industry which has been drawn up by MUFAP and approved by the SECP;
- 1.4. **“Dealing in Mutual Funds”** means marketing and distribution of mutual fund units;
- 1.5. **“Distribution Company/ Distributor”** means, a company, firm or a bank appointed by the Management Company and after intimation to the trustee for performing the distribution function and may also include the management company and the trustee, subject to approval by the Securities and Exchange Commission of Pakistan (SECP);
- 1.6. **“Guidelines”** means the guidelines issued by the SECP on the mutual fund industry;
- 1.7. **“Independent Financial Consultants”**“IFC” means individuals who have passed the Level-1 exam conducted by MUFAP (and other subsequent exams as conducted by MUFAP) and who are duly registered with MUFAP. They include any persons dealing in mutual fund units or any staff, employee or officers under a contract of employment with a Distributor and who are duly registered with and authorized by

MUFAP to market and distribute mutual fund units. This term shall also apply to AMCs' approved agents;

- 1.8. **“Independent Dealer” or an “ID”** means the Persons dealing in mutual funds who are registered with and authorized by MUFAP to market and/ or distribute mutual funds; and who have passed the Level-1 Exam conducted by MUFAP (and other subsequent exams conducted by MUFAP);
- 1.9. **“Investors” or “Clients”** means the existing or prospective investors of any fund which is being marketed by a Distributor and includes any other person who has appointed the Distributor to act for that person in its professional capacity or to whom the Member owes a fiduciary duty;
- 1.10. **“Person”** shall mean any individual, sole proprietorship, partnership, joint venture, trust, unincorporated association, company, corporation, entity or governmental;
- 1.11. **“related”** parties means associated companies, directors of the Company, as defined in the Companies Ordinance 1984; and key management staff;
- 1.12. **“the Act”** means the Securities and Exchange Commission of Pakistan Act, 1997;
- 1.13. **“the Ordinance”** means the Securities and Exchange Ordinance, 1969;
- 1.14. **“the Rules”** mean the Non-Banking Finance Companies Rules, 2003;
- 1.15. **“Trustee”** means the Trustee of a mutual fund.

## 2. Code of Ethics

### 2.1. Professionalism

- 2.1.1. Members shall conduct their business in a professional manner ensuring that they themselves and officers are thoroughly knowledgeable in all areas and aspects of the mutual funds industry in which they participate and that they are acting in compliance with sound business practices.
- 2.1.2. Members shall show respect for other participants in the industry by engaging in fair and equitable competitive practices.
- 2.1.3. Members shall not make any statement that they are supported by any person. However it is acceptable for a Member to specify that it is a subsidiary of another entity or that it has been assessed or rated to be of a certain standard by any reputable agency person recognized by MUFAP.

### 2.2. Integrity

- 2.2.1. Members and their officers, in the conduct of their business shall observe high standards of integrity and fairness in all dealings with investors, issuers, market intermediaries, other members and regulatory and other government authorities.
- 2.2.2. Members shall at all times act to safeguard the integrity and credibility of the mutual fund industry and refrain from any act or omission which may damage the integrity of the mutual fund industry.
- 2.2.3. Members and their officers shall not give the impression that they are representing the views or opinions of MUFAP or any other group unless they have been authorized to do so.
- 2.2.4. In dealing with investors and clients, Members and their officers shall at all times act with honesty and full integrity and shall ensure that all transactions are made with the best interest of investors and clients in mind. Integrity demands honesty which must not be subordinated to personal gain and advantage.

- 2.2.5. Mutual funds shall be organized, operated, managed and their portfolios of securities selected, in the interest of all classes of unit holders and not in the interest of:

- i. Sponsors;
- ii. Directors;
- iii. Members of Board of Trustees or Directors of the Trustee Company;
- iv. Brokers and other market intermediaries;
- v. Associates of the members; or
- vi. A special class selected from the unit holders.

### 2.3. Due diligence

- 2.3.1. Members in the conduct of their Asset Management business shall at all times:
  - i. Render high standards of service;
  - ii. Exercise due diligence; and
  - iii. Exercise independent professional judgment.
- 2.3.2. Members shall not and shall ensure that their officers do not disclose to any person any personal or financial information relating to the investors or clients save and except where such disclosure has been expressly authorized in writing by such investors or clients or where such disclosure is required to be made to any relevant authority pursuant to any relevant law or legal process.
- 2.3.3. Members shall establish appropriate controls within their respective work environments to prevent any unauthorized disclosure of confidential information.

### 2.4. Consistency

- 2.4.1. Members should approach significant issues or matters which affect the mutual fund industry consistently and avoid adopting significantly different practices and approaches in respect thereof.

## 2.5. Dignity

- 2.5.1. Members shall uphold the dignity of and maintain the highest respect for the mutual fund industry. Members shall and shall ensure that their officers refrain from making complaints or making negative statements, or allow any action to be interpreted in any way to cause hurt to the reputation of others in the industry.
- 2.5.2. Members shall not and shall ensure that their officers do not publicly complain against or negatively criticize other Members, the MUFAP, the SECP and any other relevant authority. Members shall not make any defamatory, derogatory or disparaging statements against the mutual funds, officers or practices of another AMC.
- 2.5.3. Complaints and criticism shall instead be forwarded to the SECP, MUFAP or any other relevant authority in a professional manner.

## 2.6. Conflict of Interest

- 2.6.1. Members shall and shall ensure that their officers avoid transactions in which they face a conflict of interest whether real, potential or perceived. In the event that any Member or its officers are involved inadvertently or otherwise in any transaction in which they face a conflict of interest, whether real, potential or perceived, they should immediately declare the circumstances of the conflict to the Trustee and their Senior Compliance Officer and their Board of Directors and withdraw from such transaction.
- 2.6.2. To allay any suspicion that personal dealings or investments of the officers of Members may be improper or that such dealings or investments have been made on the basis of information obtained in the course of official work giving such persons an unfair advantage ("internal information"). Members should have in place their own supervisory and internal control system to monitor such personal dealings and investments.

- 2.6.3. In particular, Members shall request their officers who possess or may reasonably be expected to possess internal information:

- i. Not to use internal information whether for their own or any other parties' benefit;
- ii. To disclose all personal dealings and investments to be made or made by them whether directly or indirectly, where the Member has reason to suspect or believe that such persons have been improperly using internal information;
- iii. To inform in writing to the management before personal dealings and investment transactions are entered into; and
- iv. To take note of the relevant laws prohibiting insider trading such as the Securities and Exchange Ordinance, 1969 and the penalties imposed for breach of such laws and acknowledge in writing that they have been given a copy of this Code and that they have taken note of the same.

## 2.6.4. Benefits and Gifts

- i. Members shall not and shall ensure that their officers do not accept any benefits, rebates, commissions or gifts of significant value, loans, fees, rewards, shares, securities of any kind, offices, employment, contract of services and favour from any parties which are intended or will tend to render them obligated to such parties and thereby place them and/ or the mutual funds they are managing in a compromising manner; and
- ii. Token gifts may be accepted or offered during festive seasons or when recreational events are organized by the Members, if the acceptance or offer of such gifts does not put the recipient in a compromising position.

- 2.6.5. As a general guide, a transaction in which there can be a conflict of interest includes, but is not limited to, a transaction in which:

- i. The interests of investors or clients may be prejudiced by the relationship of the Members or their officers with the other party or parties of their transaction;

- ii. The interests of investors or clients compete with the interests of the Members or their officers; or
- iii. The other party or parties to the transaction is a related party or their officers have a financial interest.

### **2.7. Fair and Equitable Treatment**

- 2.7.1. Members shall ensure that all transactions entered into with third parties are on an arm's length basis and on terms which are the best available for investors or clients.

## **3. Standards of Professional Conduct**

Members must observe the following standards of conduct:

### **3.1. Compliance with Laws**

- 3.1.1. Members shall and shall ensure that their officers act in compliance and conformity (with the letter and in the spirit) with the Act, all laws, guidelines, orders, directives and policies (including this Code) issued, drawn up or imposed by any relevant authority including, but not limited to the SECP and MUFAP.
- 3.1.2. Member shall establish and maintain written policies and procedures for the effective control and conduct of its business and the activities of their officers to ensure compliance with the Act, the Code and all other relevant laws.

### **3.2. Co-operation with Governmental Bodies**

- 3.2.1. Members shall be bound by MUFAP's Articles of Association and shall comply with all the directions and rulings on ethics and standards issued by the MUFAP from time to time.

### **3.3. Investment Practices**

- 3.3.1. Members shall manage all the schemes in accordance with the fundamental investment objectives and investment policies stated in the offer documents and take investment decisions solely in the interest of the unit holders.
- 3.3.2. Members shall not knowingly buy or sell securities for any of their schemes from or to:
  - i. Any director, officer or employee of the member; or
  - ii. Any trustee or any director, officer or employee of the Trustee Company.

### **3.4. Operations**

- 3.4.1. Members shall avoid conflicts of interest in managing the affairs of the schemes and shall keep the interest of all unit holders paramount in all matters related to the scheme.
- 3.4.2. Members or any of their directors, officers or employees shall not indulge in front running (buying or selling of any securities ahead of transaction of the fund, with access to information regarding the transaction which is not public and which is material to making an investment decision, so as to derive unfair advantage).
- 3.4.3. Members or any of their directors, officers or employees shall not indulge in self dealing (using their position to engage in transactions with the fund by which they benefit unfairly at the expense of the fund and the unit holders).
- 3.4.4. Members shall not engage in any act, practice or course of business in connection with the purchase or sale, directly or indirectly, of any security held or to be acquired by any scheme managed by the Members, and in purchase, sale and redemption of units of schemes managed by the Members, which is fraudulent, deceptive or manipulative.
- 3.4.5. Members shall not, in respect of any securities, be party to:
  - i. Creating a false market;
  - ii. Price rigging or manipulation; or

- iii. Passing of price sensitive information to brokers, members of stock exchanges and other players in the capital markets or take action which is unethical or unfair to investors

3.4.6. Employees, officers and directors of the Members shall not work as agents/ brokers for selling of the schemes of the Members, except in their capacity as employees of the Member or the Trustee Company.

3.4.7. Members shall not make any change in the fundamental attributes of a scheme, without the prior approval of unit holders except when such change is consequent on changes in the regulations.

3.4.8. Members shall avoid excessive concentration of business with any broking firm, and excessive holding of units in a scheme by few persons or entities.

### 3.5. Professional Selling Practices

3.5.1. Members shall not use any unethical means to sell, market or induce any investor to buy their products and schemes.

3.5.2. Members shall not make any exaggerated statement regarding performance of any product or scheme.

3.5.3. Members shall endeavor to ensure that at all times:

- i. Investors are provided with true and adequate information without any misleading or exaggerated claims to investors about their capability to render certain services or their achievements in regard to services rendered to other clients;
- ii. Investors are made aware of attendant risks in members' schemes before any investment decision is made by the investors;
- iii. Copies of prospectus, memoranda and related literature is made available to investors on request;
- iv. Adequate steps are taken for fair allotment of mutual fund units and refund of application moneys without delay and within the prescribed limits; and

- v. Complaints from investors are fairly and expeditiously dealt with.

3.5.4. Members in all their communications to investors and selling agents shall:

- i. Not present a mutual fund scheme as if it were a new share issue;
- ii. Not create unrealistic expectations;
- iii. Not guarantee returns except as stated in the offer document of the scheme approved by SECP, and in such case, the Members shall ensure that adequate resources will be made available and maintained to meet the guaranteed returns;
- iv. Convey in clear terms the market risk and the investment risks of any scheme being offered by the Members;
- v. Not induce members by offering benefits which are extraneous to the scheme; and
- vi. Not misrepresent either by stating information in a manner calculated to mislead or by omitting to state information which is material to making an informed decision.

3.5.5. In marketing and distributing mutual funds, Members shall only engage persons(s) who:

- i. Possess the qualifications prescribed by the SECP; and
- ii. Have been duly registered with and authorized by MUFAP for the purpose of dealing in mutual funds.

3.5.6. Members shall properly supervise and monitor the conduct and practices of the IFC who represent them and they shall take all reasonable steps to ensure that such IFC does not violate any provisions of the Code. In the event that any such IFC is found to be in breach of this Code, Members shall take appropriate action against the relevant IFC which commensurates with the degree of breach of the Code. In addition, if the breach is one which contravenes any applicable law, the Member should make a report of such breach to the SECP and or any other relevant authority.

### 3.6. Advertisements and Promotional Materials

- 3.6.1. In addition to rules relating to advertising and promotional materials contained in the Regulations, Members when advertising or promoting their mutual funds should not be deceptive, ambiguous or make false or misleading statements. The principle of honesty and greatest accuracy must underlie all promotional statements.
- 3.6.2. A promotional statement should be clearly distinguishable as a statement issued with the intent of promoting the investment, service or firm to which it relates. Published information in advertisements and promotional materials must be substantiated.
- 3.6.3. To avoid misleading advertisements and promotional materials on comparative performance of mutual funds, comparative performance data, which has been awarded or issued by a reputable agency or person approved or accredited by MUFAP may be published in an advertisement. The performance data used must be current and should only be used in advertisements if awarded or issued within the last twelve calendar months.
- 3.6.4. The publication of performance data must be in accordance with criteria prescribed in the advertising and promotional materials contained in the Regulations. Personal opinions shall be clearly identified as such.

### 3.7. Reports and information

- 3.7.1. Members shall supply and deliver to MUFAP upon request with copies of:
- i. All audited accounts and reports of all mutual funds of which they are the managers;
  - ii. All audited accounts of the Member;
  - iii. Any deed by or pursuant to which the member is appointed the manager of a mutual fund; and
  - iv. Any prospectus or supplementary prospectus issued by them or in respect of the mutual fund of which they are the managers.

- 3.7.2. Member shall also provide MUFAP such information which may be reasonably requested from time to time provided that:
- i. The provision of such information will not cause the Member to breach its duty of confidence towards its investors or clients without the written authorization of its investors or clients;
  - ii. The information requested is not sensitive in the nature of the business of the Member; and
  - iii. The provision of such information will not cause any commercial disadvantage to the Member.
- 3.7.3. Members shall follow comparable and standardized valuation policies in accordance with the SECP Regulations.
- 3.7.4. Members shall follow uniform performance reporting on the basis of total return.
- 3.7.5. Members shall ensure scheme wise segregation of cash and securities accounts.

### 3.8. Disclosures

- 3.8.1. Members shall ensure timely dissemination to all unit holders of adequate, accurate and explicit information presented in a simple language about the investment objectives, investment policies, financial position and general affairs of the scheme.
- 3.8.2. Members shall disclose to unit holders investment pattern, portfolio details, ratios of expenses to net assets and total income and portfolio turnover wherever applicable in respect of schemes on annual basis.
- 3.8.3. Disclosures for offering documents:
- i. Members shall ensure that all offering documentation in relation to any fund contains such degree of information as is necessary for the investor to make an informed judgment as to investment in that unit trust or mutual fund.



- ii. Members shall ensure that all offering documentation in relation to any fund is written as clearly and as simply as is practicable.
- iii. Members shall provide investors with all requisite documentation promptly in accordance with their stated intentions.
- iv. Members shall abide by all policies and statements of intention stated in their offering documentation and shall ensure that investors and potential investors are given adequate warning of any proposed changes of intention or policy.

### **3.9. Unfair Competition**

- 3.9.1. Members shall not make any statement or become privy to any act, practice or competition, which is likely to be harmful to the interests of other Members or is likely to place other Members in a disadvantageous position in relation to a market player or investors, while competing for investible funds.

### **3.10. Reference to MUFAP logo and Membership**

- 3.10.1. Members may disclose membership with MUFAP and display or use MUFAP's logo in all materials such as prospectus, accounts, unit holders' reports or other communication and advertising. MUFAP's logo must not be used without a statement of affiliation to MUFAP. If Members wish to use MUFAP's logo for other purposes, prior approval must be obtained from MUFAP.

### **3.11. Enforcement**

- 3.11.1. Members shall
  - i. Widely disseminate the MUFAP Code to all persons and entities covered by it;
  - ii. Make observance of the Code a condition of employment;
  - iii. Make violation of the provisions of the code, a ground for revocation of contractual arrangement without redress and a cause for disciplinary action;

- iv. Require that each officer and employee of the Member sign a statement that he/ she has received and read a copy of the Code;
- v. Ensure that all relevant officers obtain registration (where applicable) from the SECP or MUFAP as required;
- vi. Establish internal controls and compliance mechanisms, including assigning supervisory responsibility;
- vii. Designate one person with primary responsibility for exercising compliance with power to fully investigate all possible violations and report to competent authority;
- viii. File regular reports to the Trustees on a half yearly and annual basis regarding observance of the Code and special reports as circumstances require;
- ix. Maintain records of all activities and transactions for at least three years, which records shall be subject to review by the Trustees; and
- x. Dedicate adequate resources to carrying out the provisions of the Code.

## **4. Breach of Laws**

- 4.1. In the event that the officers are found to be in breach of this Code, Members should take appropriate disciplinary action against its officers which commensurate with the degree of breach of the Code. In addition if the breach is one which contravenes any applicable law, the Member should make a report of such breach to the SECP and or any other relevant authority.

## 5. Disciplinary Proceedings

5.1. Adherence to the Code is mandatory for all Members and their officers and its provisions will be strictly enforced by MUFAP. The bylaws relating to "The Procedure for Disciplinary Proceedings" have also been drafted by MUFAP, which will be enforced where necessary. In order to maintain high standards of professional conduct, Members or their officers who have breached provisions of the Code shall be subject to the appropriate disciplinary proceedings.

Awaiting SECP Approval