



Chairman SECP's Communiqué

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During its decade-long presence as the representative body of mutual funds in Pakistan, MUFAP has been instrumental in bringing the mutual funds industry to its present level. As we progress towards higher levels of growth and development, MUFAP's role as a partner in this exercise becomes even more vital. We believe that by having a self-reliant, effective and independent management team coupled with a balanced composition of its Board to ensure fair representation of all stakeholders, the mutual funds industry will go a long way in achieving this objective and the SECP is willing to lend every possible support in this regard.

The SECP in collaboration with MUFAP and other industry stakeholders has implemented new regulatory measures aimed at strengthening the mutual funds industry and safeguarding investors. Registration of trustees of mutual funds, replacement of the seed capital requirement with minimum fund size of PKR 100 million, empowerment of unit-holders, detailed procedure for winding up of an open-end scheme and registration of mutual funds' distributors with MUFAP were some of the measures introduced. In addition, the SECP introduced requirements for Exchange-Traded Funds and approved other innovative products for meeting investors' diverse financial needs.

Realizing its role for the development of the industry, the SECP has constituted a fifteen member NBF Sector Reform Committee comprising of leading market professionals and senior SECP officials to furnish recommendations for promotion and growth of a sustainable NBF sector. The committee will soon furnish its final recommendations for implementation.

The SECP is gradually moving away from the earlier regulatory focus of relying solely on financial strength and capital requirements to enhancement of human skill requirements for fund managers. For this purpose, the SECP intends to introduce guidelines for capital market participants in order to set out the minimum standards for "fit and proper" criteria for key personnel, code of conduct for fund managers and risk management requirements.

The SECP is also revising the existing Investment Finance Services (IFS) regulatory framework in light of international best practices and is considering the introduction of activity based regulatory regime for IFS. Under this regime individual investment banking activities will be defined and any entity desirous of undertaking these activities will be required to obtain a license from the SECP. Furthermore, this regime envisions that a single entity may undertake single or multiple activities including stock brokerage, corporate advisory, securities finance, investment advisory and securities underwritings.

In order to develop and facilitate independent fund management companies, the SECP is also reviewing the existing regime to consider the concept of a single entity to undertake all fund management services, i.e. asset management, investment advisory, REIT management, etc. The intention would be that if an AMC has a sound track record of managing investors' funds and has the technical expertise, for example for REIT management, then they can be given the license to manage REITS with some additional capital requirements.

One of the primary issues associated with the limited penetration of mutual funds is the lack of investor awareness and limited distribution network. On both these fronts, the SECP is working in collaboration with key stakeholders. In terms of improving investor knowledge, a nationwide, comprehensive and sustained investor awareness program has been launched which is expected to play a pivotal and valuable role in familiarizing the public across Pakistan with the concept of mutual funds among other capital market products.

In terms of enhancing retail participation, the SECP is considering multi-pronged strategies including providing meaningful incentives to AMCs for targeting retail investors and by making it mandatory for them to establish their own distribution/branch network. This will better enable AMCs to generate liquidity and expand market outreach.

With a view to utilizing the automation advantage for the growth of the industry, the SECP will encourage the use of internet/online/mobile technologies which will enable AMCs to utilize the internet, blogs, social media, on-line banking, ATM facilities and mobile phones for distribution of mutual funds to retail investors. Further, the introduction of the concept of expense ratio is also under review. The SECP has been stressing the need for focusing on increasing retail investors, which is now vital particularly with the elimination of the tax advantage available to certain class of institutional investors and the ban on management fee sharing. The SECP appreciates it as a major challenge for the industry players and is willing to provide requisite support.

To further diversify and add value to domestic savings intermediation, the role of the investment management industry has been expanded with the establishment of the Voluntary Pensions Scheme industry. VPS are gradually establishing their foothold in Pakistan and a general awareness about them is being created among the public. While the current tax advantage is considered lucrative for salaried individuals, corporates too are considering switching to VPS. Through dedicated efforts, the tax advantage to the contributors of the VPS was enhanced during the previous years to encourage savings and this move has resulted in growth of the sector. Another achievement concerns parity between provident funds and VPS for withdrawal from the system. We hope that the pension fund managers will take advantage of the opportunities and challenges presented.

We expect that the MUFAP will focus on promoting an independent professional management team and that while giving policy recommendations it will continue to present its independent view point for the development of the industry in the long term.

We hope that the MUFAP Yearbook gradually becomes a flagship document that is used by the industry participants and the public to learn key aspects, industry statistics and other authentic information about the mutual funds industry.

