



## Chairman MUFAP's Perspective

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The asset management industry plays a vital role in the management of savings for individuals and institutions. In recent years, MUFAP and the member institutions have made great strides in advancing the development of mutual fund industry in Pakistan. Various campaigns have been carried out to raise public awareness. It is my conviction that soon the mutual fund industry will become a sector as important as any. The net assets of the mutual fund industry expanded by 53.42% in FY12, making this our second consecutive year of double-digit growth. The total net assets reached a high of PKR 380.5 billion as at end-June 2012. The growth applies both to open-end funds, up 59.20% to nearly PKR 354.28 billion and pension funds, with an estimated growth of 76%. The strong growth has been driven largely by conventional Money Market and Income funds investing primarily in Government Securities. At the end of the current fiscal year, Income funds reported an ending fund balance of PKR 94.30 billion, an increase of PKR 46.80 billion, or 98.52% in comparison with the prior year. Likewise, Money Market funds increased by PKR 73.20 billion, or 94.70% Y-o-Y, to PKR 150.51 billion.

### Economic Review

The problems that caused a full-blown financial crisis in the early months of 2008 were so deep and pervasive that the pace of recovery has been slower and more prolonged. Though, GDP partly recovered from the effects of the 2008 crisis which dragged down overall GDP to 1.7%, however it is still significantly below its pre-crisis level. Pakistan's economy has been struggling to regain financial stability as the overall performance of the economy has been moderately satisfactory during the fiscal year 2011-12. The real GDP has grown at an annualized growth rate of 3.7% as against 3.0% last year. All the three major sectors, namely, agriculture, industry and services have provided support to economic growth. The commodity-producing sector (agriculture) contributed 17.98%, while industry contributed 23.43% to the real GDP growth. The services sector as a whole contributed almost 58.58% to the overall GDP.

The economic growth is mainly underpinned by high exports, strong workers' remittances inflows, easing of inflationary pressures and massive buildup of foreign exchange reserves. Remittances from Pakistanis

abroad rose 17.73 per cent to \$13.186 billion in 2011-12, compared with \$11.2 billion the previous year. Discount rate has been lowered by cumulative 200 bps to 12% (and subsequently to 10% in October 2012) citing improvement in the prospects for lower inflation, together with a need to encourage investment in private sector in order to stimulate sustainable economic growth. Despite these recent improvements, persistent rise in international oil prices, continuous decline in investment, widening current account deficit and internal security hazards raise concern about the long-term growth prospects. Furthermore, infrastructural deficits, especially in terms of energy generation and gas production, continue to impede acceleration of growth.

### **Capital Markets Review**

Despite recent jitters in response to strained Pak-US ties, meek global outlook and ongoing concerns about macroeconomic instability, KSE-100 posted a total gain of 1,305.38 points or 10% during the fiscal year 2012. The stock market witnessed across-the-board decline in the first half of the year with KSE -100 index falling 1,148.37 points or 9.19%. Disappointing economic data, shortage of gas supply to manufacturing sector, heavy foreign net selling and further political uncertainty fears dampened the sentiment in the first two quarters. However, promulgation of much-awaited CGT ordinance, strong corporate results along with healthy payouts and approval of the demutualization Bill for stock exchange brought optimism back to the market in the second-half of the year. During the last quarter of FY12, the KSE-100 index crossed the 14,000 points level and made a high of 14,617.97 on a closing basis, back to levels last seen in 2008. The approval of reformed CGT regime to allow investors keeping their source of investment in shares undisclosed till June 30, 2014 appeared to have prompted renewed interest in the market. KSE-100 index surged 2,453.75 points or 21.62% to close the fiscal year at 13,801.41.

### **Mutual Funds and Budget 2012-13**

On the recommendation of MUFAP, tax credit for investment in new shares is now enhanced at 20% of the taxable income instead of 15% with maximum limit for investment increased from PKR 500,000/- to PKR 1,000,000/- in the Finance Bill 2012. The holding period of investment is now reduced to 24 months compared to 36 months for the claim of tax credit.

### **Resolution of the FED Issue**

MUFAP actively pursued constitutional petition against the show cause notices for the levy of federal excise duty for the three years ended June 30, 2011 issued to several of the funds of member institutions. A reference to the Federal Excise Act, 2005 made it very clear that the services provided by asset management companies are not chargeable to FED as only the services specified in Chapter 98 and mentioned in the First Schedule are applicable to FED. Asset Management Companies were not specified in Chapter 98 of the Act and are therefore not chargeable to FED. However, due to undue persistence from the offices of the Commissioners of Inland Revenue, MUFAPs Member Institutions were left with no option but to file a Constitutional Petition in the Sindh High Court in June 2011. After various court proceedings and a continuous dialogue with the representatives of FBR, MUFAP has been successful in obtaining exemption from federal excise duty on asset management services retrospectively from 2007.

### **Anomaly in the Tax on Services**

It needs to be mentioned here that FED and its provincial variant, Sindh Sales Tax on Services (which is specifically charged on services provided by AMCs and is being charged to the investors of the Funds) is not imposed on competitors of mutual funds such as banks for their investment products such as PLS and other Savings and term deposits and most importantly it is not levied on investment through the NSS or on investment in Government Securities. The investment promoted by AMCs through mutual funds goes towards providing financing to all the productive sectors of the national economy. On the other hand, the savings generated through NSS and Government Securities are applied towards meeting the ever widening budget deficits of the Government, which due to their very high rates divert funds towards such investments and not only reduce the availability of funds for commerce and industry, but also the financing becoming available for commerce and industry becomes very expensive.

### **Voluntary Pension Schemes and Budget 2012-13**

In order to develop an efficient retirement system in Pakistan, MUFAP proposed numerous amendments in the Finance Bill 2012 and the following amendments have been incorporated:

1. Withdrawal from approved pension fund of the amount representing transfer of balance from an



approved provident fund to the approved pension fund under the Voluntary Pension System Rules, 2005 is exempted from tax.

2. The amount received as monthly instalments from an income payment plan invested out of the accumulated balance of an individual pension account under the Voluntary Pension System Rules, 2005 has been exempted from tax provided that it is invested for a period of ten years.

### **Regulatory Initiatives**

Strengthening the efficacy of regulatory system to foster transparency, consistency and accountability across the mutual fund industry has been our number one priority for several years. MUFAP has been proactively involved in the regulatory processes to provide responses to SECP and to review draft policies to seek engagement with regulators. MUFAP has worked closely with SECP to finalize Debt Securities Trustee Regulations, 2012, which provides guidance to the trustees of Debt Securities in discharging their responsibilities. MUFAP has been instrumental in the development of regulatory guidelines for launching Exchange Traded Funds (ETFs). MUFAP places great emphasis on promoting good corporate governance and provided substantive input and support to the development of Code of Corporate Governance, 2012. This new code aims to bring consistency in corporate practices and promote transparency through enhanced disclosure requirements.

### **Workers Welfare Fund**

MUFAP has also been engaged in pursuing constitutional petition relating to levy under Workers Welfare Fund (WWF) on the mutual funds. MUFAP has very clear clarifications issued by the Ministry of Labor and Manpower that WWF is applicable on asset management companies but not on mutual funds which are exempted from WWF. Nevertheless, the FBR has persisted in sending notices for WWF dues to mutual funds. Mutual Funds Constitutional Petition for decision and judgment of the Sindh High Court is pending at the Court since June 30, 2010. Since then there has been a decision of the Lahore High Court on a WWF Petition in June 2011 which has totally vindicated MUFAPs position on its Constitutional Petition (with very detailed articulation of the decision why the FBRs position was rejected). One of our member institutions has also had a decision in their favor by the Commissioner Inland Revenue on their appeal against the notices received for five of its Funds. We remain optimistic that the final outcome will be favorable for us. Meanwhile due to the fact that the underlying funds are open-end, they continuously face the dilemma as to how deal with the issue which remains in the best interest of the unit holders as both providing and not providing can have negative implications if the outcome is favorable or adverse respectively.

### **Code of Conduct for Distributors**

The SECP had vide an SRO on the September 5, 2011 introduced amendments to the Non Banking Finance Companies and Notified Entities Regulations, 2008, wherein the distributors selling mutual funds were required to acquire registration with the Mutual Funds Association of Pakistan as registered service providers and maintain the registration on an annual basis and abide by the code of conduct prescribed for them by the Mutual Funds Association of Pakistan. All existing distributors were required to acquire registration with Mutual Funds Association of Pakistan as registered services provider before the first day of March 2012.

Pursuant to this, 39 institutions and 21 individuals have registered with MUFAP as Registered Service Providers. Any one not registered with MUFAP is not authorized to sell mutual funds and voluntary pension schemes. MUFAP has also introduced 'Code of Qualification and Conduct for Registered Service Providers' which represents the functions, obligations, rights and responsibilities of Distributors registered with MUFAP. This Code is in place with effect from July 1, 2012 and available on MUFAP's website.

### **Investor Education**

MUFAP has been active in organizing educational events to increase awareness and penetration of mutual funds in the country through various seminars and close relationship with various industry associations/regulating organizations. During the period under review, MUFAP organized a couple of seminars in collaboration with FPCCI, CDC and OICCI to educate investors about the benefits of mutual funds and voluntary pension funds. I would like to thank Mr. Hanif Jakhura, CEO, CDC for his support and active role in arranging these programs.

Furthermore, MUFAP has been participating in SECP-sponsored Investor Education Program to raise the level of financial literacy in order to expand the base of knowledgeable investors. MUFAP prepared the

brochures on mutual funds and voluntary pension schemes to help investors develop a basic understanding of mutual funds.

### **MUFAP completes Eleven Years since its formal incorporation**

Mutual Funds Association of Pakistan (MUFAP) was formed in 1996 to promote mutual funds in Pakistan. In 2001, MUFAP was formally registered and recognized as the representative body of asset management companies in the country. Since then, MUFAP has been actively working for the promotion of mutual funds in Pakistan at all forums, within and outside of Pakistan. We celebrated our eleventh anniversary this year and to mark this occasion, Business Recorder published a supplement which contains useful information on mutual funds and many interesting highlights of MUFAP.

### **MUFAP SECP Meetings Schedule**

MUFAP and SECP have formalized a meeting schedule to meet regularly to discuss the various issues. The CEO of MUFAP shall meet on a monthly basis with the Director (AMCs) Wing from SECP. MUFAP's Board shall meet with SECP's Executive Director (SCD) & Director (AMCs) Wing on a quarterly basis and with the Chairman SECP, Executive Director (SCD) & Director (AMCs) Wing on a semi-annual basis. MUFAP held five meetings with SECP during the year.

### **Change in Management**

Mr. Shamshad Nabi retired from MUFAP after completing five years in July 2012. I would like to thank Shamshad Nabi for his many successes and immense contribution to the Association and, in particular, for his leadership role during the financial crisis of 2008. Starting with a one employee and no independent premises, he built the organization to an independent, well recognized and reputed association with highly qualified staff and independent premises. Under his direction, MUFAP has positioned itself as a leading platform for members to engage in strategic dialogue and information sharing. He established a solid base for members to access government support and industry assistance. His leadership has been instrumental in many reforms and initiatives over the five year period. He leaves behind him a strong organization, ready to meet the challenges of the future.

It is my pleasure to welcome Ms. Mashmooma Zehra Majeed to the position of CEO. Ms. Mashmooma Zehra Majeed joined MUFAP in May 2012 as CEO-designate and took over as CEO on August 1, 2012. She is a well qualified professional with more than 10 years of wide ranging experience in the asset management industry. I am confident that under her leadership, MUFAP will continue to play an integral role in the growth and expansion of mutual fund industry. I look forward to her advice and counsel in the coming years and anticipate that she will make a valuable contribution to MUFAP's future.

### **Acknowledgement**

During my tenure I have been impressed by the quality and quantity of the contributions made by our members, committees and working groups. I am deeply grateful to them for the endless hours they have devoted to MUFAP. I would like to thank the Vice Chairman, Mr. Mohammad Shoaib, fellow Directors and Committees Chairpersons for their dedication, teamwork and support. I would like to thank the Outgoing Directors, Mr. M. Habib-ur-Rahman, Mr. Mohammad Shoaib, Mr. Yasir Qadri, Mr. Farid Ahmed Khan, Mr. Babar Ali Lakhani and Mr. Wazir Ali Khoja, for their invaluable support and encouragement. Last but not least, my thanks and appreciation to Mr. Shamshad Nabi, Ex-CEO, Ms. Mashmooma Z. Majeed, CEO, Ms. Zainab Abu Bakar, Company Secretary and other officers and staff of MUFAP for their hard work and dedication.

I would also like to thank the SECP for their continued support. I am particularly grateful to Mr. Muhammad Ali, Chairman, SECP, Mr. Asif Jalal Bhatti, Executive Director, Mr. Muhammad Afzal, Director Pensions and Mr. Rashid Piracha, Director (AMCs) Wing for their proactive role in dealing with issues relating to Mutual Fund Industry and VPS.

I would also like to thank Mr. Atiqur Rehman and Mr. Abdul Samad of CDC for their hard work and contribution towards the finalization of the Standardized Trust Deed and Offering Documents for Mutual Funds. I am also thankful to all former chairmen of MUFAP for their support and guidance.

I am also very grateful to the Finance Minister Dr. Abdul Hafeez Shaikh and Chairman, FBR Mr. Mumtaz Haider Rizvi for their patient hearing of our budget proposals relating to VPS and mutual funds and for accommodating them in the Finance Bill 2012.

