



Leading the Way Forward

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Internationally, mutual funds have been around for a long time, dating back to the late 18th century/early 19th century. These were pooled investment structures that evolved into investment trusts/closed-end funds. The first modern American open-end mutual fund opened in 1924, yet it was only in the 1990's that mutual funds became mainstream investments, as the number of households owning them nearly tripled during that decade, with recent surveys showing that over 88% of all investors in the US participate in mutual funds.

What Are Mutual Funds?

A mutual fund is a special type of investment vehicle that pools together money from many investors and invests it on behalf of the group, in accordance with a stated set of objectives and is managed by a professional investment company. This large pool of money gives each investor much greater purchasing power than they could possibly have investing on their own. After paying operating costs, the earnings (dividends, capital gains or losses) of the mutual fund are distributed to the investors, in proportion to the amount of money invested. Heeding the adage "Don't put all your eggs in one basket" the holders of mutual fund units are collectively able to gain the advantage by diversifying their investments, which might be beyond their financial means individually.

A mutual fund may be either an open-end or a closed-end fund. An open-end mutual fund does not have a set number of shares; and continuously issues and redeems units. Investors are able to buy and sell their units at any time at the prevailing Net Asset Value of the Fund depending upon the performance of the securities held by the fund. On the other hand, closed-end mutual fund has a fixed number of shares and is then traded on the secondary market, where the value of the shares fluctuates with the market.

Mutual funds vs. direct investments

Mutual funds are popular because they make investing in financial markets easy. From an investors' viewpoint mutual funds have several advantages such as:

- Professional management and research to select quality securities.
- Spreading risk over a larger number of stocks whereas the investor is limited to buy only a hand

full of stocks. The investor is therefore not putting all his eggs in one basket.

- Ability to add funds at set amounts and smaller quantities such as PKR 1,000/5,000 per month.
- Ability to take advantage of the stock market which has generally outperformed other investments in the long run.
- Ability to convert the Units into cash at any time and receive the amount within 6 working days.
- Economies of scale: Because a mutual fund buys and sells large amounts of securities at a time, its transaction costs are lower than what an individual would pay for securities transactions.

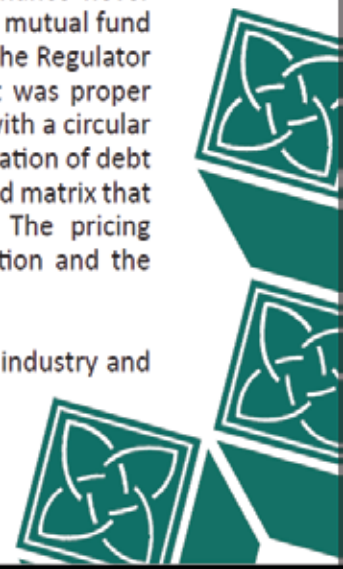
Background of MUFAP

In Pakistan, the first open-end mutual fund was introduced in 1962 and closed-end mutual funds from 1966. Initially the Management Companies (National Investment Trust Limited for open-end fund and Investment Corporation of Pakistan for closed-end funds) were established under private and public sector partnership but later in 1972 following nationalization, the Management Companies came under total Government control. In 1971, the rules were introduced to allow private sector companies to launch closed-end mutual funds. The first private sector closed-end fund was launched in 1983. Mutual Funds Association of Pakistan (MUFAP) was formed in 1996 when a group of investment advisors managing eight closed-end mutual funds got together to form an association that would work to promote mutual funds in Pakistan. Around the same time, the Asset Management Companies Rules, 1995 had been notified which allowed private and foreign firms to launch open-end mutual funds. While the first open-end mutual fund was launched in 1997, it wasn't before 2002 that this area started to really pick up pace when several other players entered the industry. The same period also saw the stock market's performance scale new heights as a result of positive government policies and incentives, registering a growth of more than fifteen times in the net assets of the mutual funds between the years 2003-2008.

Meanwhile in 2001, MUFAP was formally registered and recognized as the representative body of asset management companies in the country. As the industry developed and progressed, the role of MUFAP was expanded and in 2007 MUFAP moved into its independent premises and Mr. Shamshad Nabi, a seasoned professional, who is a foreign qualified chartered accountant & MBA Finance and has over forty years experience in the financial institutions in Pakistan and overseas, joined MUFAP as its Chief Executive. Under his leadership, MUFAP made significant contributions to promote the mutual funds as the preferred investment solution for investors and ample efforts to voice the concerns and issues of the member asset management companies (AMCs) and Funds.

The financial crisis of 2008 curbed the growth pattern as the economy and the financial markets drastically declined and subsequently the mutual funds declined. A number of ad-hoc measures taken by the Regulator and the stock exchanges with the approval of the Regulator, further fueled the downfall and industry went through a rough period. One such major decision was fixing the floor price at the Stock Exchange, which virtually closed the market for almost four months (End August 2008-mid December 2008). MUFAP had strongly opposed this decision. When the floor was finally removed enough damage had been done including damage to the credibility of these institutions. Due to the closure of the stock exchange MUFAP had to request the SECP to suspend the redemption in funds having investment in equity securities, as in the event of redemption these funds could not sell securities in market to realize cash to meet redemption requests. However, this decision led to redemption pressure in "income funds". The decision to close the market was followed by another decision by SECP, that was "to arbitrarily reduce the prices of TFCs" that led to further escalation of redemption in income funds. Secondly the financing facility promised to the industry against "A" rated TFCs and to be guaranteed by Ministry of Finance never materialized. In many international jurisdictions, the Governments came to the rescue of the mutual fund industry but this wasn't the case in Pakistan. Thankfully both the mutual fund industry and the Regulator have learnt from 2008 crisis and as a result a number of measures were taken. The first was proper categorization of mutual funds and approved investment for each category. SECP came out with a circular enforcing categorization, in which a lot of input was provided by MUFAP. The second was valuation of debt securities and its trading. MUFAP developed a model for TFC pricing, based on transactions and matrix that took into consideration various factors, including rating, maturity, rate of profit, etc. The pricing methodology was implemented after SECP approval and MUFAP is carrying on the valuation and the pricing successfully from 2009.

MUFAP has always been in the forefront to bring transparency and good governance in the industry and



has been instrumental in shaping the industry norms to great extent. Many of the voluntary initiatives taken by MUFAP became the industry norm and went on to being included by the SECP in the regulations and its directives as the mandatory standard/requirement which itself is a great achievement. Some of the measures are announcing daily net asset value and monthly portfolios by closed-end funds, monthly fund manager reports by asset management companies in a standardized format, publication of daily performance summary at MUFAP's website and publications such as the quarterly newsletter and annual yearbook in which industry data, including returns for ten years are published. MUFAP has also been actively involved in the Asia Oceania Regional Conferences, promoting and representing the Pakistani mutual fund industry in these international forums and hosted 12th Asia Oceania Regional Meeting of IIFA, in Lahore in 2007 which was attended by heads of respective associations of countries of the region including Japan, Australia, Singapore, Philippines, Taiwan, China, Hong Kong, Bangladesh and India.

MUFAP jointly with Karachi Stock Exchange (KSE) developed a trading platform, Bond Automated Trading System (BATS), for trading of debt instruments in a transparent manner for electronic settlement and delivery on a T+1 basis through the NCCPL and CDC.

MUFAP from its humble start with a single product industry of 8 funds is today representing a multi product, multi billion industry of 155 funds, playing a key role to ensure transparency, high ethical conduct and growth of the mutual fund industry.

Role of MUFAP in the forefront of the Industry

MUFAP is a trade association working to promote and safeguard the interest of its members and actively serve the members in areas of federal and provincial legislation and regulation, accounting & valuation, taxation, pension, international issues, economic and market research, industry statistics, public information, investor awareness, fund operations and investment adviser issues.

Similar to international mutual fund industry associations, the role of MUFAP broadly encompasses the following five major areas:

1. Policy Issues & Shaping Regulation
2. Market Practices - developing and implementing Industry Codes and Guidelines
3. Investor awareness & education
4. Research & Statistics
5. Training

1. Policy Issues & Shaping Regulations

One of the major areas that MUFAP has been focusing on since its inception and which shall continue to be a major focus area is representing the industry with the regulatory authority and other Government agencies to ensure that the environment and infrastructure available can support the continued development of the mutual fund industry and to ensure that a level playing field is available for the mutual funds and voluntary pension schemes.

i. Laws, Rules, Regulations

This pertains to contributing towards shaping laws, rules, regulation whenever there is need to adapt the regulatory framework, or towards creating a specific regulatory framework for new products or services.

It is very important that the regulatory framework supports the growth and development of the industry. MUFAP has been actively involved in identifying regulatory, legislative and taxation areas which required amendments to make them conducive for mutual funds/ voluntary pension schemes and contributing to the amendments in such areas. So far, MUFAP has been either identifying the areas and proposing amendments in them or providing comments/observations on the draft rules and regulations drafted by the SECP.

MUFAP brings in valuable input and industry insight into the process and we believe that going forward MUFAP's role should be more proactive and involvement should be from the very start

whenever a law, rules or regulation is under review. For this purpose, we have proposed that a joint committee of SECP & MUFAP with equal representation from each side should be formed and meet on a regular basis. The members from MUFAP shall be nominated by MUFAP. The Committee may include on an on-going or need be basis independent, technically relevant members (eg. chartered accountants, lawyers, business executives having knowledge of industry, etc).

ii. Pending legislation

MUFAP would like to play an important role in legislation in areas where it is long overdue. These include pension, real estate, debt instruments, Zakat and Ushr Ordinance, and reform in legal system relating to financial and capital markets. In all such areas study groups would need to be setup to prepare reports, submission to the Government and follow up. These matters need also to be highlighted for public awareness through articles and seminars. We consider that positive development in these areas will have positive impact on the capital market. Some of the areas are as discussed below:

A. Regulating Occupational Saving Schemes: Currently in Pakistan there exists the Government Retirement Schemes (for government employees) and then there are the private sector and public sector (state owned) organizations are offering post employment retirement benefits to their employees. These schemes have to be approved and registered with Commissioner of Income Tax (CIT).

(i) Regulatory Aspect

The investment of private sector provident funds are made according to the provisions of the section 227 of the Companies Ordinance, 1984 and related Rules, in case of entities established as company under the Companies Ordinance and provisions of outdated section 20 of the Trusts Act, 1882 in case of organizations other than companies. The investment policies of the public sector (state owned) organizations are laid down in their constitutive documents and applicable laws. Other than the requirement of registration with CIT, the retirement schemes are not regulated. All retirement schemes have common objectives and operative procedure; yet they are governed and regulated under different laws and by different regulators. All such schemes should be governed under one law and regulated by the Securities and Exchange Commission of Pakistan (SECP). Due to an amendment in SECP Act, the National Assembly has authorized SECP to regulate all occupational saving schemes, except those offered by the Government or Government entities. SECP should now proceed with the legislation in this direction, which will involve repeal of a large body of laws, rules and guidelines and frame new laws, rules and guidelines to replace these.

(ii) Funding Aspect

Pension reforms are becoming necessary all over the world as the present pension systems (the defined benefit (DB), pay-as-you-go systems), generally being used in the world are no longer affordable with current & future demographics of the countries. The DB systems in most countries worldwide are under intense financial pressure and are either under or un-funded. Low retirement age in many countries exerts financial pressure and hampers labor participation and lack of tax incentives do not motivate the individuals toward personal savings. The world is moving from defined benefit schemes to defined contribution retirement schemes. The global trend in pension policy is shifting toward more funding, more private management, more regulation, more defined contribution (DC), and more individual responsibility or choice. DC type schemes allow greater labor market mobility, a key factor in encouraging economic growth. The poor government record on investment and service provision has led to more private management. Simultaneously, increasing financial literacy, the failure of sponsors to keep DB promises, and low and declining returns from old schemes have led to a trend towards more individual responsibility or choice.

There is urgent need for Pakistan to do that also. On the provincial level, there is some recognition in this need and recently, the Punjab and Sindh Governments have



established funds where so far only small amount has been transferred for partially funding of pension liability. These are however not managed by private sector organization under SECP regulation, which is not in line with global practice and might lead to abuse.

For successful pension reforms in Pakistan the Government and the Regulator has to show commitment. This program can be undertaken in phases and some of the phases are relatively easily implementable.

Real Estate Investment Trusts (REITs): Real Estate Investment Trust (REIT) Regulations, 2008 were notified on January 31, 2008. This is another product introduced by SECP (VPS being another), which has not taken off. In Pakistan, the Real Estate business suffers from lack of transparency. It is understood that before the notification of the Regulation, SECP held discussions and negotiations with the provincial Governments to streamline the laws relating to real estate. At one stage a high level committee was also formed consisting of representatives of SECP, Provincial Governments and Ministry of Finance to review laws relating to real estate and to suggest measures to bring transparency in the business of real estate yet not much action has taken place in this front. A reform in the laws and practice of Real Estate sector is necessary not only for successful launch of REIT, but to document the undocumented sector of the economy and to minimize the tax evasion, which is channelled through this sector. The needed reform will be helpful for this sector as if properly regulated there will be inflow of capital in this sector. The commitment of Government (and the Provincial Governments as well) is needed, without which no progress is likely. The reform in laws and practices in real estate sector should cover the following areas:

- (i) Land record;
- (ii) Registering and regulating the brokers;
- (iii) Review of taxation laws, particularly “duty on transfer”, as higher tax on transfer results in declaration of transactions at lower values;
- (iv) Ensuring real estate transaction through banking channel and making it mandatory upon banks to report transactions to Government;
- (v) Bringing real estate brokers under regulation and in tax net.

Besides above, which are major impediments in the development of REITs, there are other issues within the Regulations also which are hampering the development of REITs. These include:

- (i) Current requirements of minimum equity of the REIT Management Company (RMC), REIT scheme and minimum 20% of REIT scheme units to be held by the RMC are extremely high which will restrict the industry to a few large wealthy business groups and land developers.
- (ii) The management fee (1% for Developmental REITs on the initial REITs fund size and 3% of annual operating income for Rental REITs) is very low. This will limit the industry to those sponsors who set up RMCs to (i) benefit exclusively from the tax-free status of REITs; and/or (ii) make money through pricing mechanism.
- (iii) Borrowing against REITs assets plays an integral part in the growth and profitability of the REIT industry. Not allowing any leveraging is against the international practice and will impede the growth of the industry.
- (iv) Existing AMC's should be allowed to launch REIT schemes as a separate asset class. Internationally almost half of the REIT schemes have been launched by AMC's.

Developing Debt Markets

The debt markets in Pakistan need to be developed. Bond Automated Trading System (BATS) was introduced in Pakistan in 2009 in which MUFAP played a key role in its development. This is a major step for the development of the bond market in Pakistan and it was made compulsory for all bond holders to trade through BATS from April 2011. In order to further develop the bonds market, companies should be encouraged to issue listed TFCs in the future rather than take the route of privately placed TFCs. One major reason that several companies opt for issuing privately placed TFCs is the processing time

to get the requisite approvals from the SECP. We would propose to SECP to announce that any company applying for approval of listing of TFCs will be given such approval (or denied) within a 15-day period.

The Trustee Regulations for the Debt Instruments was introduced earlier this year which is a first step towards developing these instruments and improving regulatory ambit of the same. There is a however need to review the legal system to simplify the procedure so that legal recourse is simple. Quite often the large banks are not interested in pursuing legal actions as they prevail on the issuers to settle their dues. Small investors are left high and dry. It is proposed that where the issuer has not performed, the stock exchange, SECP and the SBP should intervene and be pro-active to ensure that the management is genuinely making efforts to resolve the problems facing the Company. Where such is not the case and the non-performance is due to financial irregularity, legal action must be taken jointly by the investors. A culture of non-payment of dividend in case of equity securities and non-performance in case of debt instruments has been prevalent in the country for quite some time. This culture will not help development of the capital market. Stock Exchanges, SECP and SBP have a responsibility towards small investors to ensure this cultures changes.

Listing Regulations of Stock Exchanges for Debt Instruments

Historically the Listing Regulations were made with a view to cover the requirements of "equity securities" and investors in equity securities. If bond markets are to be developed, the stock exchanges need to amend listing regulations to cover provisions for bonds, TFC and sukuks. The provisions should cover among things the following:

- (i) Qualification and Responsibility of Trustee;
- (ii) Availability of up-to-date Trust Deed and other legal documents on the website of the issuers and the Trustee;
- (iii) Availability of quarterly, half yearly and yearly accounts on the website of issuers and the Trustee and supply to investors on request;
- (iv) Payments of mark-up and principal instalments;
- (v) Provision regarding sensitive information;
- (vi) Restructuring, default and similar matters;
- (vii) Mandatory on issuers that in the event of non-performance they would post monthly report on the web-site about the financial position of the Company and simultaneously provide the information to the stock exchange.

D. Zakat and Ushr Ordinance: Non sahib-e-nisab status for mutual funds and pension funds has been a long outstanding issue and we have been requesting the Government to declare collective investment schemes as non sahib-e-nisab since 1997-98. There are various anomalies in the Ordinance. At places, institutions or collective Zakat levy is avoided and individuals are levied based on their status to avoid double levy. Yet in other places both institutions and individuals are levied. Due to such anomalies, private sector mutual funds and voluntary pension schemes are considered as "sahib-e-nisab" i.e. eligible for Zakat deduction and the state owned mutual funds are not. This lack of level playing field creates operational difficulties for the private sector funds.

iii. Pressure Groups for improving corporate governance

Corporate Governance is a series of systems and processes aimed at protecting the stake of all stakeholders in an organization. This includes among other things ethical practices, division of authority, checks and balances, risk mitigations, transparency, responsibility and accountability. Corporate Governance applies across the board to all organizations, including companies, financial institutions, public sector organizations as well as Regulators and pillars of Government.

Good governance governs the relationship between the managers and shareholders of the corporations, as well as stakeholders like employees, pensioners and local communities to ensure transparency, fairness and accountability. When this trust is undermined, lenders and



investors lose their appetite for risk. Under these circumstances we cannot expect the investment in the capital market or in securities that invest in capital market. A new generation of corporate governance is emerging, which aims at governance for sustainability. The concept is based on three principles, that an entity is the full value chain, there is a complex "partnership" to which oversight is needed and performance to be measured and that Boards need to reflect different stakeholders interests.

MUFAP intends to play the role of a "pressure group" to improve corporate governance of listed companies and issuers of debt instruments. The emphasis would be on real performance rather than creating a façade of good governance.

Such role could be played by senior MUFAP members coming on the board of listed companies or actively participating at the General Meetings. The role could also be played by writing articles on the subject and pointing out practices that are not in the best interest of minority investors. MUFAP's role in all such matters should be objective and suggest ways and means to improve corporate governance, regulatory and legal procedures.

Further the "code of corporate governance" should be equally applicable to public sector listed companies. There should be no exemption as laid down in clause (vi) of the code of corporate governance. There is also a need that the selection of senior executives (particularly CEO) should be on merit through a transparent process.

2. **Market Practices - developing and implementing Industry Codes and Guidelines**

Investor trust is a key to successfully developing the collective investment business. To build investor confidence international best practices and ethical standards in all areas should be adopted. MUFAP strives to encourage professional behaviour, quality products and services and integrity of all players involved by developing codes of conduct, transparency and good corporate governance and ethical & professional standards of the industry keeping the investor interest in mind.

Further the development and implementation of codes and guidelines for all operational processes also leads to standardization of these processes, bringing uniformity amongst the various AMCs & Funds making it easier for the investors to compare various funds. In certain areas they also bring efficiency in the process by reducing the processing time by requiring adherence and compliance to the code rather than specific approvals from SECP.

In the past, MUFAP introduced the Standardization of the Fund Manager's Report and the Return calculation methodology for Mutual Funds performance comparison. Both these measures led to consistency in the information provided to the investor making it easier for the investor to make informed investment decisions. Further MUFAP is independently making available on its website the daily as well as longer period performance comparison for funds.

i. Code of Qualification and Conduct for Registered Service Providers:

The SECP through a SRO in September 2011 brought an amendment in the Non Banking Finance Companies and Notified Entities Regulations 2008 (Regulations) which introduced the registration of the distributors with MUFAP and the abidance to the code of conduct prescribed for them by MUFAP. In accordance with this regulation, MUFAP prescribed the Code of Qualification and Conduct for Registered Service Providers which came into effect from July 1, 2012. Through this Code, MUFAP has introduced some minimum requirements for distributors including the fit and proper criteria to ensure that the qualified people with the requisite knowledge and experience come into the business of distributing mutual funds to avoid mis-selling and misrepresentation and sharing of incorrect/incomplete information. This is only the first step towards promoting ethical standards in selling of mutual funds, which will go long way towards creating a level playing field for all genuine distributors as well as encouraging them to expand the investor base and market penetration.

ii. Code of Conduct for the asset management companies:

MUFAP has also drafted a Code of Ethics and Standards of Professional Conduct for the asset management companies. This code has been with the SECP for the past two years awaiting their

approval as the Non Banking Finance Companies Rules, 2003 require that the code of conduct prescribed by MUFAP would be approved by the SECP. MUFAP is in regular contact with the SECP to finalize this code so that the same can be implemented.

The SECP has recently drafted circular on advertisement requirements for collective investment schemes which has been reviewed by MUFAP and comments have been shared with the SECP. We are hopeful that with the notification of this circular, minimum standards and disclosures will come into effect, making it easier for investors as well.

iii. Development of industry policy and guidance papers:

Further through the development of industry policy and guidance papers, the MUFAP can assist in the defining of practice in complex areas such as compliance, valuation, accounting, share dealing and registration.

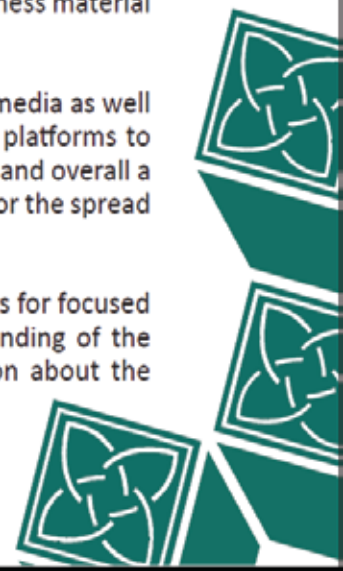
In our study of mutual funds associations in international jurisdictions we have noted that the Investment Management Association (IMA), has been delegated authority from the UK Accounting Standards Board to prepare the accounting standard for UK mutual funds. Mutual Funds have intricate NAV based accounting requirements which at times the IFRS doesn't address properly. It is therefore very important that the representatives of MUFAP should be involved in developing the valuation standards/ methodology along with the SECP and address these issues with ICAP.

3. Investor awareness & education

Investor awareness, education and protection are the most important aspects to attain sustainable growth in our industry. Internationally mutual fund investors are primarily individuals, which unfortunately has not been the case in Pakistan where the mutual funds market penetration remains very limited. It is essential for the growth and sustainability of the industry to expand it and enhance the distribution networks to bring in new investors, particularly retail investors. Since most mutual funds categories have offered and are offering a higher rate of return than bank deposits over the medium term, investors should be informed of the such options. This can be achieved through improving awareness among investors that there are several investment options available in the market place, and making investors aware of the risks and rewards associated with such investment avenues.

Protecting the interests of the investing public and making them more knowledgeable about their investment options and risk exposures so they can make informed investment decisions has always been a matter at the forefront at MUFAP. Unfortunately financial constraints and industry issues have always restricted our attention and focus in this area. However, within our resources our focus will be to create investor awareness and education by making information easily and independently available to the investors by:

- i. An improved, informative and interactive website which disseminates information about mutual fund industry as well as individual mutual funds so as to assist the investor in making better investment decision i.e. net asset values, risk level, historical performance, performance comparison with benchmarks, etc.
- ii. Publish, print, broadcast or telecast including publication of newsletters, yearbooks, journals, advertisements, pamphlets, brochures, statistical books, investor education/ awareness material or literature.
- iii. MUFAP will work on developing networks relying on conventional sources such as media as well as web based marketing techniques and out-of-box ideas to structure alternative platforms to create understanding of mutual funds, benefits of investment through mutual fund and overall a need for saving through a target market focused advertising/marketing campaigns for the spread and propagation of knowledge and information useful to the public at large.
- iv. Organizing meeting, conferences, workshops, seminars, lectures and other activities for focused target markets as may seem to be conducive so as to promote proper understanding of the concept and working of mutual funds so that the audience will have information about the industry, products and trends at one location.



- v. SECP and MUFAP need to make combined efforts to improve public awareness of investors about various types of mutual funds through joint SECP-MUFAP investor education/ awareness programs to introduce the concept of savings through mutual funds and voluntary pension schemes to help grow and enhance the retail investor base.
- vi. For the better interest and long term growth and development of the industry, the third party Distributors (Registered Service Providers) also need to play an important role along with the AMCs by focusing towards retail, retirement funds and other untapped investor segments and not just towards selling the tax advantage to institutions.

4. Research & Statistics

- i. **Statistics:** Availability of consolidated information and industry data on one platform is a first step towards building investor confidence in the industry as it provides them with independent verification of industry data including returns.

MUFAP shall be maintaining a library and a statistical database for collecting and maintaining data & statistics on mutual fund industry and disseminating such statistical data and providing research material to all related to the mutual fund industry and general public at large (so as to educate investors) through its website. MUFAP will be greatly strengthening its IT infrastructure over the year in this regard to achieve this.

Additionally, MUFAP's quarterly and annual publications contain a detailed section on statistical information. MUFAP is also introducing a monthly publication from the newly started financial year.

One important area we wish to work on in the coming year is to determine the actual number of unit holders in the mutual fund industry. Currently the investor accounts includes duplications between funds and asset management companies. This is a major task which we can only accomplish with the complete support of all AMCs.

- ii. **Research and Development:** Research shall be focused towards product innovation, particularly pertaining to international products and new products including private equity & REITs and international best practices and preparing guidelines on financial products development including on new innovative products to enable environment for product innovation.

Internationally we have noticed that the industry associations of the developed countries place major emphasis on research and industry policy papers. From this new financial year, following international best practices, MUFAP's research analysts shall be researching and writing research report/papers on selective topics. Each analyst shall write at least one paper per year. These reports shall be available on MUFAP's website and its year book.

5. Training

For real and sustained growth in the industry further education, training and capacity building is urgently needed. The SECP, MUFAP and the ICM need to work together towards this goal of capacity building for the mutual fund industry. The training and certification program (in collaboration with ICM) in place for sales agents of asset management companies and their third party distributors should be continuously enhanced and improved. Informed sales agents are better able to represent the products to the prospective investors and less likely to end up mis-selling.

Training programmes and industry-specific seminars and briefings will help in creating awareness about the mutual funds and promoting them to the retail investors so they can start saving through the mutual funds.

MUFAP in association with the ICM and through leveraging on the inherent latent capacities within its Member Institutions' professional staff can play an important and effective role in the professional development and capacity building in the industry. Within the mutual fund industry in Pakistan we have very well educated professional staff in large numbers with 10 to as much as 40 years of very sound and solid experience in all aspects of the management of

mutual funds and in the financial services industry. The professional staff in MUFAPs Member Institutions includes Actuaries, Chartered Accountants, CFAs, Graduates from Business Schools and from other disciplines from the most selective Institutions in Pakistan and abroad. However, this excellent latent capacity for training and further professional development which exists within the industry has remained largely dormant and unexploited. This is because no serious efforts have been made in the recent decades both from within the mutual funds industry or by the regulatory bodies to seriously focus on this subject and to leverage on this potential latent capacity. What is needed is training of this very well educated and well trained professional staff as trainers so that their capabilities can also be developed for the training and professional development of staff from entry levels and for the further continuing professional development of staff through the years not only for the mutual funds industry but also for the broader market participants in the financial services and the securities industries.

Conclusion

MUFAP's role in the growth and development of the mutual fund industry is highly important. MUFAP has been and will continue to play its part in the progressive development of the country's investment industry and economy. The growth of mutual fund industry will benefit many segments of the financial and capital markets of Pakistan. Also MUFAP along with its members and the SECP can play a very important role in increasing the awareness and interest of general public towards investment and to create an environment where people save for their future. The initiative to improve rate of savings and provide fair return to investors will demand working on a range of issues with other stake holders including the Government and regulators. Individuals are the key savers in any country including Pakistan. The mutual fund industry in Pakistan has already marketed its products to large corporations. The key challenge now is how to approach the Small & Medium Enterprises (SMEs), High Net Worth (HNW) investors, and the retail market. Accessing these market segments will require large expenditures on setting up offices around the country and hiring a large work force. However, success will only be achieved in due course of time as the knowledge and awareness level of investors improve. MUFAP intends to launch within this year a comprehensive three year public awareness program to generate awareness amongst the retail about mutual funds.

The fundamental founding principle of our organization has been to keep a small professional team and substantiate it through committees formed by member bodies' support. This keeps the organization economical and allows us to tap the collective knowledge, experience and expertise of the members which would not have been possible otherwise. MUFAP's committees are already active in many areas, including working on awareness programs and improvement of information dissemination by improving the website, and developing a separate website for pension fund. MUFAP shall be further streamlining the terms of references of the committees and introducing a more focused framework to get maximum value addition from these resources. Further one member from MUFAP shall be a mandatory member of each committee and will act as the secretary for the committee as well to ensure that the committee functions effectively.

Further we shall be strengthening our HR and IT infrastructure to support our enhanced role and requirements. This would include both strengthening of the networking and internal infrastructure, improvements of the website and availability of more information on the website and expanding our statistical database. Further a Management by Objectives (MBO) system for the employees is being introduced so their assignments and objectives are in line with the Company's objectives.

MUFAP strongly believes that proactive and periodic interaction between SECP and MUFAP would be mutually beneficial in the development and growth of this industry and enable us to address issues at the very start and move forward in a progressive manner. We also intend to have a more formal interaction at regular intervals with the Distributors/RSPs to promote and expand the industry and meet on at least an annual basis with ICAP and Stock Exchanges. MUFAP is further amending its articles of association to allow Trustees of mutual funds and voluntary pension schemes to join MUFAP as full members as we believe that Trustees are an integral part of the constitution of the fund and therefore will be very valuable addition towards further strengthening the role of MUFAP. With MUFAP, CDC and SECP working together in the better interest of the industry, we have no way to go but forward.

