

7. RULES, REGULATIONS & PRODUCT DEVELOPMENT COMMITTEE FOR MUTUAL FUNDS

(5 meetings held in the period October 1, 2011 - September 30, 2012)

<u>Member</u>	<u>Meetings Attended</u>	<u>Member</u>	<u>Meetings Attended</u>
Babar Ali Lakhani (<i>Chairman</i>)	5 of 5	M. Habib-ur-Rahman	5 of 5
Ahmed Ateeq*	0 of 3	Mohammad Shoaib	1 of 5
Amir Mobin	5 of 5	Muhammad Umair Chauhan	1 of 5
Farid Ahmed Khan	4 of 5		

(* Member since April 10, 2012)

TERMS OF REFERENCE

- To review governing and related laws, Rules and Regulations, Circulars pertaining to mutual funds on an ongoing basis and making recommendations to the SECP; and
- To research on investment products in other jurisdictions.

ACTIVITIES' REPORT

The Committee kept itself abreast with changes in existing laws, rules and regulations and endeavoured to resolve issues the industry encountered in the area of regulation and compliance.

1. Global Investment Performance Standards (GIPS)

SECP sought MUFAPs views at the request of the CFA Association of Pakistan to make adoption of GIPS mandatory

for the mutual fund industry in Pakistan. The Committee after due deliberations decided that the adoption of GIPS should be left optional at the discretion of the AMC, as per international practice.

2. Minimum Fund Size

A member institution requested SECP to allow their Fund to continue operations without attracting provisions 54 3(a) of the NBFC & NE Regulations, 2008. The SECP did not agree to the submission of AMC. The Board of Directors of MUFAP raised this issue with SECP in meeting held on July 18, 2012. It was decided that before holding the required unit holder meeting, AMC may approach the Commission and they would consider this matter on case to case basis.

3. Management Fee Sharing

During the year the Committee analyzed several facets of the issue of management fee sharing and submitted its recommendations to the Board. In the light of these recommendations, MUFAP Board requested SECP to disallow management fee sharing with investors. On June 11, 2012 SECP placed a ban on AMCs sharing the management fee directly or indirectly with the investors. Accordingly, in the light of the SECP directives to ban management fee sharing even indirectly, the Board on the recommendation of the Committee revised the "Code of Qualification and Conduct for Registered Service Providers" with effect from July 1, 2012 by adding the provisions that disallows the distributors to share management fee with investors and requiring them to provide undertaking to MUFAP/AMC. Secondly, AMC shall not share management fee with distributors on investment by related parties of distributors. These two provisions in the code will remove the possibility of indirect sharing of management fee with investors. The Committee also decided to incorporate in the code that the distributors will not be entitled to fee sharing on sale to banks and financial institutions, in order that Distributors shall concentrate on retail sales and sales to SMEs.

The Board also considered the practice of levying varying management fee on investors based on amount of investment and was of the opinion that the fee should be uniform for all investors irrespective of investment amount. This subject was also deliberated in MUFAP/SECP meeting on July 18, 2012.

The Committee and the Board of Directors are strongly of the opinion that the MUFAP members are generally charging fee less than 2% allowed by Regulation. Sharing of the fee with investors has given rise to unhealthy practices. The AMC have to improve their profitability, that will help in improving their services, distribution network and fund management capabilities. This will be more beneficial to investors in the long run than sharing of fee.

4. Banking Companies Ordinance, 1962

The Committee concluded that the proposed amendments do not have any significant impact on AMCs that are part of banking groups.