Message of Chairman, SECP

Mr. Tahir Mahmood,
Acting Chairman,
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The present era global financial system, characterized by client-specific advisory services, disintermediation and emphasising both on risk management as well as economies of scale, provides ample scope for mutual funds to flourish. Pakistan's mutual funds industry has also been able to tap the opportunities and witnessed a growth trend during the recent past. The aggregate size of the industry has now reached PKR 416 billion (as on July 31, 2013) from a very modest PKR 51 billion in 2003.

Indeed, the growth of the sector in the current scenario of difficult resources mobilization and stiff competition from the banking sector is really commendable. Nevertheless, the industry still has to overcome many challenges to achieve a mainstream status in the financial sector of Pakistan. The size of the industry, being only around 4% of the banking and non-banking financial sector assets, remains rather small in comparison to international standards. It is important that concerted efforts are made to strengthen the stability and growth of the sector.

Securities and Exchange Commission of Pakistan (SECP), with the aim to promote the mutual funds, has long been working to bring about qualitative changes in their practices and policies. To facilitate pension funds in diversifying their investment portfolio and reducing risk, SECP has amended Pension Funds investment policy, enabling investment in commodity futures contracts traded on Pakistan Mercantile Exchange Limited. To encourage growth of the sector appropriate amendments have been made in the VPS Rules that allow participants transferability of account not only within pension fund managers but also within the pension funds managed by the same fund manager as well as transfer of balance from approved occupational schemes to VPS. We hope that the taxation regime would accordingly be amended to allow such transfers of funds without any adverse tax implications.

SECP has introduced a new class of mutual fund i.e. open-end commodity scheme as well as allowing balanced funds and asset allocation funds to take exposure in commodity future contracts. This initiative extends operational flexibility to the funds and the opportunity for the investors to invest in commodities. Further, to standardize the disclosure in constitutive documents of mutual fund schemes and encourage transparency, SECP has also approved the standardized trust deed and offering document.

One significant initiative of SECP to foster growth and development of mutual fund industry was to undertake a holistic review of the sector so as to assess the impediments that hinder the sector to unleash its true potential. A Non-Bank Financial (NBF) Sector Reform Committee was constituted to review and deliberate the issues and recommend appropriate measures for the growth of the sector. The Committee identified the key challenges that the mutual fund industry is facing today inter-alia;

limited branch network, scarcity of skilled human resource, weak role of rating agencies, lack of effective debenture trustee and fair price discovery of debt securities held in the portfolio of income and other mutual funds as well as the participation of the long term retail investors' and the requisite education and awareness of the public about mutual funds.

The committee suggested developing an alternate financial system by way of promoting NBF Sector to diversify the inherent systemic risk and provide different asset classes to promote savings as well as cater the specific needs of participants. Major suggestions in terms of mutual funds are:

- AMCs to target retail investors and develop their own branch network.
- Distribution of mutual funds through stock exchanges and other channels.
- Encouraging Product innovation, introduction of multiple classes of unit based on the investment amount and other risk management requirements.
- Setting out minimum 'fit and proper' standards for key personnel and code of conduct for fund managers.

The recommendations of NBF Reform Committee are presently under consideration and appropriate steps are being undertaken to implement suggested reforms through amendments in the regulatory regime. However, to effectively implement these recommendations, concerted and coordinated support of all stakeholders including State Bank of Pakistan, Ministry of Finance and Federal Board of Revenue are also needed.

I believe that to play an effective role of underpinning the financial markets and an effective resource mobilization channel, the MUFAP and the funds industry must adjust their modalities to take account of global developments and promote international best practices in corporate governance.

I congratulate MUFAP on its continued efforts to promote general understanding about mutual funds industry in the country through the publication of the MUFAP Year Book.