

# Chairman's Review



**Mr. Rehan Nabi Shaikh,  
Chairman,  
Mutual Funds Association of Pakistan**

During the year under review, the mutual funds industry touched its historical high of PKR 444 billion in November 2012. The equity market witnessed a growth of more than 50%, hence a shift was seen in the interest of investors from the fixed income securities to equity securities, resulting in a 30% increase in the equity funds category. MUFAP continued to engage itself with the regulators and the government towards addressing industry issues, bringing transparency and improving the fund management practices. MUFAP and its members have also been focusing on investor awareness and education by carrying out various public awareness campaigns and events to educate our investors on savings.

### **Economic Update**

Although the fiscal year 2012-13 started with

continuous problems of power and gas shortages along with other internal and external challenges, although lower than the last year GDP growth of 4.4%, the economy still managed a growth in GDP of approximately 3.6%. Besides other factors, the decline in GDP growth rate was mainly due to the shortage of investments made into the economy. In the recent past, Pakistan has not been able to attract Foreign Direct Investments (FDI) as per the potential of the country. However, some signs of improvements have been seen since March 2013, post the peaceful transition of democratic government, suggesting improvement in investor's confidence.

The volatile economic conditions have led the monetary policy changing throughout the year. SBP has adopted relatively an expansionary policy stance for the past two years as the policy rate has been reduced by cumulative 400 basis points from 13.5 percent in August 2011 to 9.5 percent in December 2012. This paves the way for price stability and an economic growth for the future. The average CPI

inflation was around 7.5 percent throughout the year. The slower increase in inflation is the result of better supply situation domestically and decline in international commodity prices. The reduction in policy rates has been due to the easing inflation rate during the year.

The capital market crossed 22,000 points post-elections emitting positive signals to the investors' confidence. At the beginning of the financial year the KSE 100 index which was at 13,801.41 points and grew to around 19,900 points right before the elections and then broke all historical records reaching its all time high level of above 22,881 points by the end of the financial year. The considerable decline in discount rate was amongst the reasons which generated interest within the local and foreign investors. During the financial year 2013, the KSE 100 index increased by 52.2 percent.

## Mutual Funds and Economic Development

### ■ Savings

Pakistan has one of the lowest savings rate in the world. Low savings in an economy eventually translates into low investments and thus higher reliance on foreign aid. Pakistan's savings (% of GDP) is around 15% which is amongst the lowest in the world, and also amongst the comparable nations in the region. Mutual Funds can play an importance role in a country like Pakistan where the savings rate is low. Hence, much focus and effort is needed towards investor awareness and educating the investors.

### ■ Financial Markets

Over the years, Pakistan has improved its financial markets substantially. After the 2008 crisis, the regulators have played a proactive role and eventually resulted in a transparent and productive market. The results are observable in the capital market.

### ■ Equity

The Karachi Stock Exchange grew by 52 percent during the financial year 2013. An increasing trend in the investor's confidence has been observed in the stock market and the mutual funds. According to a report by Thomson Reuters Lipper 15 Pakistani mutual funds were amongst world's top 100 equity funds in CY 2012.

### ■ Debt

The Debt Market has been slow since the 2008 crisis. Illiquidity remains the core concern.

Mutual funds have been affected the most as they follow NAV based accounting and are required to mark-to-market every security on a daily basis. For this purpose, MUFAP and the regulators have been actively working towards a possible solution. Earlier, BATS was launched and now a consideration on developing a Bond Pricing Agency (BPA) is underway. The Commission with the assistance of MUFAP came up with the Sukuk Regulations, 2012. These regulations cover all aspects related to Sukuk bonds, including eligibility and conditions for issuance of Sukuk, disclosure and reporting requirements and appointment of trustee and Shariah advisor.

## Events during the year

### ■ Review of SECP's Non-Bank Financial (NBF) Sector Reform Report

SECP had formed a committee comprising of leading market professionals and senior SECP officials which came up with a detailed report suggesting reforms for the development of the NBF sector. The report contained three parts highlighting background and issues, review of other jurisdictions and way forward. The way forward contained comprehensive set of recommendations for sustainable growth and development of the NBF Sector. An ad hoc Committee was set up at MUFAP to study the recommendations and provide its feedback. This report was highly appreciated and viewed as a positive step towards progress and sustainability of the NBF sector.

### ■ Changes in Regulations

Closed-end fund managers were facing a lot of difficulties in interpretation of the Regulation 65 of NBFC & NE Regulations, 2008 which included holding of meeting of certificate holders/shareholders, passing of special resolutions, circulation of statement of material facts etc. An ad hoc Committee was setup at MUFAP to resolve all the ambiguities relating to legal interpretation of this regulation and discussed the same with the Commission. As per this Regulation, all the Closed-end schemes will either convert it to Open-end scheme or revoke it, with the consent of its unit holders.

### ■ Federal Excise Duty

Finance Act, 2012 had clarified that FED was not applicable on asset management services. However, the new government through the Finance Bill 2013-14 applied the federal excise duty (FED) levy on mutual funds, introduced

procedural complications in tax credit on investments, and additional taxation on the pass-through status of mutual funds. These measures are likely to affect investment in the mutual funds industry. Investors in mutual funds are already paying provincial sales tax at the rate of 16 percent. With the introduction of the proposed levy, mutual fund investors will be paying a total levy of over 30 percent. Again, this will be in addition to the capital gains tax and the tax on dividends at investor level being paid by them. MUFAP is actively taking up the matter at relevant forums.

#### ■ Investor Education/Public Awareness

Despite a population of over 180 million, the mutual funds industry has been able to capture not more than 200,000 investors. Most of the investment comes from the major cities of Pakistan and are mostly concentrated with the institutional investors. Although, some efforts have already been made to educate masses about mutual funds and the concept of savings, still great strides are required to achieve the desired objectives. MUFAP has carried out a series of seminars in the last couple of years in collaboration with the SECP, CDC, FPCCI, OICCI, etc. To increase the public awareness for voluntary pension schemes, long-term savings, MUFAP is in the process of launching dedicated website for this purpose which will provide detailed information on VPS.

#### Meetings with SECP

In order to resolve industry issues and follow up, MUFAP has been holding regular meetings with SECP. During the year, the Board held two meetings with the Chairman SECP and his team while one other meeting was held with Executive Director Specialized Companies Division and his team. The CEO of MUFAP held discussions and meetings with the Director NBFC on a regular basis. MUFAP is grateful to SECP for their cooperation.

#### Regulatory Initiatives

MUFAP has been proactively involved in the regulatory process to foster transparency, consistency and accountability. During the year, MUFAP consulted the Commission for guidance on various industry related issues, reviewed and provided responses to all the draft policies related to the mutual funds industry. Some successful initiatives include the introduction of the

commodities both as a category of mutual funds and an asset class. Earlier, mutual funds weren't allowed to invest in commodities.

#### MUFAP and its members

MUFAP, being a trade association has been working independently to promote and safeguard the interest of its members. The platform provided by MUFAP has helped its members to actively discuss issues pertaining to federal/provincial legislation, accounting/taxation matters, economic/industry research and public awareness programs etc. The management has been very proactive in facilitating its members to interact and mingle together. During the year, other than the operational work, MUFAP organized social events such as the first hard-ball cricket tournament and sponsored theater plays for its members, investors and prospective investors.

#### Change in Management

Mr. Shamshad Nabi retired from MUFAP after completing his tenure of five years in July 2012. His contribution to MUFAP was immense, especially dealing with issues during the financial crisis of 2008. He handed his responsibility in the able hands of Ms Mashmooma Majeed, who joined MUFAP in April 2012 as CEO designate.

#### Acknowledgement

I would like to thank SECP for their continued support. I am particularly grateful to, Mr. Muhammad Ali, ex-Chairman (SECP), Mr. Tahir Mahmood, Acting Chairman, SECP, Mr. Asif Jalal Bhatti, Executive Director, Mr. Akif Saeed, Executive Director, Mr. Muhammad Afzal, Director REITs & Pension and Mr. Rashid Piracha, Director AMCs for their proactive role in dealing with issues relating to mutual funds industry and VPS.

I would like to thank the Vice Chairman, Mr. Rashid Mansur, fellow Directors, Committees' Chairperson and Committees' Members for their dedication, teamwork and support. Lastly, my thanks and appreciation to Ms Mashmooma Zehra Majeed and the management team of MUFAP for their commitment and hard work.