

COMMITTEE REPORTS



ACCOUNTS AND TAXATION COMMITTEE

(2 Meetings Held In The Year October 1, 2016 - September 30, 2017)

Members	Meetings Attended	Members	Meetings Attended
Mr. M. Habib Ur Rahman (Chairman)	2 of 2	Mr. Mohsin Ahmed	2 of 2
Mr. Imran Azim	2 of 2	Mr. Muhammad Murtaza Ali	1 of 2
Ms. Mashmooma Z. Majeed	2 of 2	Mr. Hamza Saboor	1 of 2
Mr. Noman Ahmed Soomro	2 of 2	Ms. Misbah Wahid	2 of 2
Mr. Muhammad Khawar Iqbal	2 of 2		

TERMS OF REFERENCE

- ✦ Taking up any matter relating to accounts/audit with Auditors, ICAP and SECP or any other authority as and when they arise;
- ✦ Making of Proposals for Federal or provincial Budgets;
- ✦ Drafting of a long term tax policy of MUFAP;
- ✦ Examining and resolving any tax related issues; and
- ✦ Any other matter connected with Audit, Accounts and Taxation;

ACTIVITIES' REPORT

i. Taxation on Management Company

Under the Finance Act 2015, the rate of tax to be deducted from payment under sub-section (1) of section 153 had been changed to a minimum tax of 8% which is exorbitantly high rate of withholding tax for AMCs specially the smaller ones. The Committee discussed the same and proposed it to be restored to the previous minimum rate of 1% or reduced to 2% as done for certain sectors. The upward revision in rate is seriously affecting some of the AMCs who have losses or high operational expenses so the Committee recommended to the Board to take this up proactively with SECP and FBR.

ii. Taxation of Bonus shares under section 236M AND 236N

The Committee as part of Budget Proposals recommended that Sections 236M and 236N should be added to Clause 47B, Part IV of the Second Schedule of the Income Tax Ordinance 2001, since the income of the mutual funds and pension funds are already exempt through Clause 47B, Part IV of the Second Schedule of the Income Tax Ordinance 2001, from withholding from Dividend, Profit on Debt, Brokerage and Commission. The Committee discussed that this is an anomaly causing operational difficulties to the Funds every time a bonus is announced by investee company in their portfolio.

iii. Taxation Schedules:

The Committee again proposed the following Schedules drafted the previous year as a part of the Budget Proposals to FBR and SECP:

100D: Special provisions relating to Mutual Funds and Collective Investment Schemes.

100E: Special provisions relating to REIT Schemes.

100F: Special provisions relating to Approved Pension Funds.

The Tax Provisions in respect of taxation of both mutual funds and investors have been consolidated in a proposed (Schedule 10) read as rules for the computation of the income, profits and gains of the mutual funds and collective investment scheme related matters and MUFAP had engaged the professional services of A.F Ferguson for drafting separate tax schedules in income tax ordinance for Mutual Funds and Voluntary Pension Schemes.



iv. Tax credit for investment in shares and insurance

The Committee discussed and recommended that mutual funds should be separately recognised in Section 62 of the Income Tax Ordinance 2001, and not clubbed in with listed securities. In this regards as a part of the Budget Proposals, the Committee proposed the following addition to Section 62: include the words "units of collective investment scheme" after the word "shares" in the section so that open end collective investment schemes are separately recognised.

v. Amendment in Section 218- Employees' provident funds, contributory retirement funds and securities Draft Companies Bill 2016

The Committee discussed and proposed that mutual funds should be separately recognised in the Section 218 sub section (2) clause (b) of the draft Companies Bill 2016 which pertains to eligible investment avenues for provident funds and not clubbed in listed securities. The SECP has incorporated this recommendation in the new Companies Act 2017.

TECHNICAL COMMITTEE - MUTUAL FUNDS

(4 MEETINGS HELD IN THE OCTOBER 03, 2016 - SEPTEMBER 30, 2017)

Members	Meetings Attended	Members	Meetings Attended
Mr. Yasir Qadri (Chairman)	4 of 4	Mr. Mohammad Shoaib	2 of 4
Ms. Maheen Rahman	4 of 4	Mr. Saqib Saleem	2 of 4
Ms. Mashmooma Z. Majeed	4 of 4	Ms. Misbah Wahid	4 of 4
Mr. Farid Ahmed Khan	3 of 4	Mr. Khaldoon Bin Latif	0 of 4
Dr. Amjad Waheed	3 of 4	Ms. Quratulain Ali (Secretary)	4 of 4

TERMS OF REFERENCE

- ✦ To review Acts, Ordinances, Rules and Regulations, Circulars pertaining to mutual funds on an ongoing basis and making recommendations to the SECP;
- ✦ Periodic and adhoc review of standardized trust deed and offering document (at least Annual)
- ✦ To research on investment products in international markets
- ✦ Drafting regulations for new product development

ACTIVITIES' REPORT

The Technical Committee over the year worked on the following issues/items:

a) Standardized Statement of Account sent by AMCs/Pension Fund Manager to the investors:

The request was received from SECP to standardise the account statement for both Mutual Funds and Voluntary Pension Scheme(VPS) so that at least minimum information to be shared in the account statements is common across the entire industry. The Committee discussed the matter and proposed the minimum contents to be made uniform across all AMCs.

b) Draft Direction on Requirements for assessing suitability of Collective Investment Scheme to the potential Investors

The draft circular/directions on requirements for assessing suitability of Collective Investment Scheme to the potential investor was shared by SECP in October 2016. The Committee reviewed the same and recommended to the Board to propose to SECP that the industry is in the phase of gradual growth and we should ease the investors from extravagant documentation since it will further discomfort them. The investor already signs the investment form which states that he has thoroughly read the offering document and understand all risks of the fund before investment hence there is no further need for this risk profiling questionnaire. Such measures will hinder the potential investors who are already reluctant and disinclined to invest in the Funds since they do not have in-depth knowledge of the industry. The Committee also recommended amendments in the draft direction as well as in development of standardized risk profiling questionnaire. The Committee also recommended that in case such a risk profiling questionnaire is needed it would be best to have the same standardized across the Industry.

c) Draft Standardization TD & OD for Shariah Compliant Funds:

The Committee reviewed the draft standardized Trust Deed and Offering Document for Shariah Compliant funds shared by the SECP. The Committee recommended some comments in the same and also proposed that the AMCs should be asked to share the draft with their Shariah Advisors so that the views of the Shariah Advisors can also be incorporated in order to standardize the documents across the industry.

d) Risk Management Policies and Criteria for Liquid Securities for mutual funds

The SECP had asked MUFAP to share a criteria for selection of liquid securities for equity mutual funds. The Technical committee held extensive discussions on the subject of liquidity management of mutual funds and proposed a liquidity management policy which was based relative to the market as in Pakistan's market its often seen that liquidity in the same stock varies based on market. The criteria categorized all the listed stocks into three classes as follows:



Tercile of the Average daily traded value	Liquidity Category
3rdTercile	Liquid
2ndTercile	Moderately Liquid
1stTercile	Illiquid

For each liquidity category, the maximum portfolio limits are as follows:

Liquidity Category	Category Limit
Liquid	100%
Combine Moderately and Illiquid	75%
Illiquid	25%

Under the proposed mechanism, the stocks for each category are determined on the basis of its "Average Daily Traded Value" which is calculated for the previous (rolling) 180 days period by multiplying the daily traded volume with the daily VWAP. Since it is 180 days rolling, it will revise gradually and a sharp rise on any day in the traded volume/value will not impact much on the overall liquidity criteria.

e) PKRV Extrapolation:

The Committee reviewed the anomalies arising in PKRV extrapolation. The issues arise in the methodology for calculating PKRV as well as in brokers quotes. The Committee noted that FMA has now corrected the pricing mechanism to some extent but still a narrow difference exists. And once the interest rate start moving again it will become significant but for the time being no further work was needed in this regards.

f) Presentation on the Growth of Mutual Funds Industry

The Committee discussed the presentation prepared by one of the members with the objective to present a comprehensive comparison of Pakistan's Mutual funds industry with others countries internationally as well as to highlight the key reasons for slow sales growth in our industry and presented the following recommendations:

- ✦ Restrictions on sales load chargeability up to 3% of the investment value should be maintained, however the restriction on charging such sales load to walk in and online clients should be removed for AMC to cover the sales and distribution expenses related to opening of branch
- ✦ In addition to sales load, in line with international practices, charging of sales and marketing expense to the fund should be allowed within the expense ratio already defined by SECP. Seventy percent countries in the world allow charging of marketing/selling expenses to the fund in addition to the sales load.

g) Requirement of minimum Exposure in Government Securities in 'Sovereign' or 'Government Securities' Funds

The Committee discussed that Sovereign or Government Securities Fund have to maintain minimum investment of 70% of net assets of the funds in the Government securities on daily basis as per the Regulations, however in uncontrollable events like significant redemptions, this exposure may fall below the regulatory limit and hence result in the breach of NBFC regulations and therefore proposed the following amendments to the Board for onward submission to SECP:

- ✦ The investment in Government securities should be worded as "At least 70% of its Net Assets shall remain invested in Government securities during the year based on quarterly average investment calculated on daily basis"
- ✦ In the event of any breach in the same due decrease in net assets due to redemptions, similar relaxation as available in regulation 55(13) for equity investment, should be available for Government securities funds as well. i.e. "where the exposure of collective investment scheme exceeds the limits specified due to the market price increase or due to decrease in net assets due to redemption in excess exposure shall be regularised within the four months of the breach of the limit;
- ✦ In addition, the Committee proposed that a grace period of 90 days from the date of breach should be available for the AMC where the Net Assets are falling on a continuous basis due to redemptions.



h) NAV Allocation on receipt of investment form in VPS Funds

The Committee discussed that presently the units of the Sub-Funds of the Pension Fund are allocated at the at the Net Asset Value (NAV) notified at the close of the working day on which the funds have been credited to the bank account of the VPS Fund (i.e. on realization of cheque basis) on such percentage according to the specified allocation policy selected by the Participant. The Committee recommended to the Board that in VPS Funds, similar to mutual funds, it should be the discretion of the AMC to determine which NAV to use: i.e. allocate the NAV applicable on the day of receipt of investment form or on the date of realization of proceeds. This would be selected at the time of Fund launched and be disclosed in the Offering Document.

i) Discussion on Spreads transactions (Future buy/sell transactions) in income / aggressive schemes;

The Committee discussed that some AMCs have received notices from SECP stating that spread transactions of future buy - ready sale are in violation of regulation 58(1)(j) of NBFC Regulations, 2008 as the said regulation only allows ready buy - future sale transactions. The Committee was of the view that primarily future buy future sell transactions generally occur on a rollover dates when one future contract is expiring and the new future contract comes. Rollover is a key aspect of futures trading that must be accounted for in such transactions and if future sell position is already there, future buy should be allowed as risk remains the same. This should be treated as normal transaction and should be allowed as the position is being netted off and recommended to the Board to take up the matter with SECP.