

COMMITTEE REPORTS



ACCOUNTS AND TAXATION COMMITTEE

(6 MEETINGS HELD IN THE YEAR OCTOBER 01, 2018 - SEPTEMBER 30, 2019)

Members	Meetings Attended	Members	Meetings Attended
Mr. Muhammad Abdul Samad (Chairman)	5 of 6	Mr. Tanzeel Abdul Sattar	4 of 6
Mr. Imran Azim	2 of 6	Mr. Zafar Iqbal Ahmed	4 of 6
Ms. Mashmooma Zehra Majeed	3 of 6	Mr. NomanQurban	3 of 6
Mr. Khalid Mehmood	5 of 6	Mr. Salman Shafiq Hashmi	3 of 6
Mr. Muhammad Kamran	5 of 6	Mr. Saqib Mateen	2 of 6
Mr. Umair Ahmed	5 of 6	Ms. Misbah Wahid (Member & Secretary to Committee)	4 of 6

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

The Taxation committee drafted and discussed the tax proposals to be submitted to FBR for the Federal Budget as follows:

i. Budget Proposals

The committee discussed the taxation issues to be included in the Budget Proposals for MUFAP and recommended the following to the Board for consideration:

A. Minimum Tax at rate of 8% under Section 153(1)(b) of the Income Tax Ordinance, 2001

The Committee proposed that Asset Management Companies and REIT Management Companies licensed by SECP and Trade Associations licensed under the Trade Organization Rules, 2013 should also be included in the same list of companies exempted from applicability of minimum tax at rate of 8% and chargeable to the reduced rate of 4%.

B. Removal of requirement to obtain Valid Tax exemption certificate for claim of exemption u/s 150, 151 and 233 of the Income Tax Ordinance 2001 in the cases where statutory exemption under clause 47B of Part IV of Second Schedule is available

The Committee proposed that Federal Board of Revenue (FBR)'s May 12, 2015 issued internal memo to its field offices should be withdrawn and specific exemption should not be required from FBR every six months/ year in cases of those entities that have been provided statutory exemption in clause 47B of Part IV of Second Schedule of the Income Tax Ordinance.

C. Section 63 (2) (ii) - Contribution to an approved pension fund

The Committee proposed extension in time period for claiming tax credit for additional contribution in any registered Voluntary Pension Scheme for another five years till June 30, 2024.

D. Inclusion of Section 150 A in the withholding section for mutual funds and pension funds

The Committee proposed that section pertaining to profit on sukuks should be included in the exemption from withholding tax section for exempt entities such as mutual funds and VPS.

ii. Ultimate beneficial ownership information by the company

The Committee discussed that some of the banks are requiring list of ultimate beneficial ownership information from mutual funds before account opening. The committee members were of the view that ultimate beneficial

owner of collective investment schemes are the unit holder *paripassu* to their holding and no one else. Since the unit holders enter and exit on a daily basis in an open end fund, it is not possible to ascertain the percentage of beneficial ownership held by each unitholder of the funds at any given point of time and recommended to the Board to issue a clarification on the same for the industry to share with the Banks at the time of bank account openings.

iii. Sindh WWF

MUFAP Committee Chairman organized a meeting with SRB Chairman and team with regards to clarification on non applicability of SWWF on mutual funds. The SRB team agreed to MUFAP's viewpoint that SWWF is not applicable on mutual funds since they don't have workers, however they also said that SRB is only the collecting agent and the labour department is the actual recipient of the amount so they will write to the labour department and get their views on the same through a written clarification. Meanwhile SRB asked that AMC's should make their outstanding payments so they become compliant which will help them plead their case for mutual funds. The Committee shared the outcome of the meeting with the Board for further action.



TECHNICAL COMMITTEE - MUTUAL FUNDS

(1 MEETING HELD IN THE YEAR OCTOBER 01, 2018 - SEPTEMBER 30, 2019)

Members	Meetings Attended	Members	Meetings Attended
Mr. Yasir Qadri (Chairman)	1 of 1	Mr. Noman Ahmed Soomro	1 of 1
Dr. Amjad Waheed	1 of 1	Mr. Muhammad Asim	1 of 1
Mr. Mohammad Shoaib	1 of 1	Ms. Misbah Wahid	1 of 1
Mr. Farid Ahmed Khan	1 of 1	Mr. Tanweer Haral	0 of 1
Ms. Mashmooma Z. Majeed	0 of 1	Ms. Quratulain Ali (Secretary to Committee)	1 of 1

TERMS OF REFERENCE

- To review Acts, Ordinances, Rules and Regulations, Circulars pertaining to mutual funds & VPS on an ongoing basis and making recommendations to the SECP;
- Periodic and ad hoc review of standardized trust deed and offering document
- To research on investment products in international markets
- Drafting regulations for new product development

ACTIVITIES' REPORT

The Technical Committee discussed the following items:

a) Concept Paper on Centralized KYC

MUFAP conducted research on which international jurisdictions had Centralized Know Your Customer (KYC) regimes and only discovered the same in India. In India Banks, Mutual Funds and Insurance Companies are part of Centralised Know Your Customer (CKYC) system and for this purpose a separate company is acting as Central KYC Registry (CKYCR). The CKYC forms have to be filled just once and then the same is used for all entities. It was however noted that the CKYC documentation in India contains only personal details and basic information of the customers and not the source of income which is the most difficult information to obtain from investors. The Committee was of the view that even if a CKYC form similar to India is introduced here, it will not be very meaningful.

b) Draft amendments in the Employees Contributory Funds (Investment in Listed Securities) Regulation 2018:

The Committee discussed the draft amendments shared by SECP and recommended the following changes:

- Regulation 3(8): Total investment, at the time of making investment in debt collective investment schemes managed by a single asset management company, shall not exceed fifty percent of the investment limit provided in clause (a) of sub-regulation (1).
- Regulation 3(11) (b): Total investment, at the time of making investment in money market collective investment scheme managed by a single asset management company, shall not exceed fifty percent of the size of the Fund or Trust as the case may be."

The committee members also proposed that fund of funds should be included as a separate category in the allowable investments by Employee Contributory Funds in mutual funds in addition to investment in equity, debt, money market and hybrid funds. The Committee also proposed to recommend to SECP that all gratuity funds should be funded in the interest employees.

c) Front end Load on mutual funds and VPS

The Committee discussed the sales load being charged on mutual funds and VPS and proposed that front end load limit should be enhanced up to 3% on online sales of mutual funds and VPS. The committee members also recommended the reduction in transaction charges of mobile banking or introduction of special reduced tariff for mutual fund transactions, in order to promote financial inclusion and access to the common man to mutual fund and other financial products.

d) Reduction of Trusteeship fee

The Committee discussed that the asset management industry has grown to a significant size and the trustee fee currently charged is considerably high in absolute terms and is especially burdensome for investors of smaller funds and proposed that MUFAP Board should take up the matter with CDC to reduce the same.

e) Kickback of Management Fee by distributors

The Committee discussed that it had been brought to the attention of some Asset Management Companies that some of the Distributors are involved in kickback of management fee received from the Fund to large investors and recommended to the Board to take up the matter with SECP to investigate the same as this practice can tarnish the reputation of both the mutual fund industry as well as the Regulator.



TFC PRICING MODEL (AD HOC COMMITTEE)

(3 MEETINGS HELD IN THE YEAR (OCTOBER 01, 2018 - SEPTEMBER 30, 2019))

Members	Meetings Attended	Members	Meetings Attended
Mr. Farid Ahmed Khan	3 of 3	Mr. Saad Ahmed	2 of 3
Ms. Mashmooma Z. Majeed	2 of 3	Mr. Zohaib Saeed	2 of 3
Mr. Faizan Saleem	3 of 3	Mr. Muhammad Ali	1 of 3
Mr. Muhammad Muzzamal	3 of 3	Mr. Zain Malik	1 of 3
Mr. Syed Shahid Iqbal	3 of 3	Ms. Misbah Wahid	3 of 3
Mr. Sheeraz Ali	3 of 3	Mr. Siraj Ali	3 of 3

TERMS OF REFERENCE

- Review of the TFC Valuation Model and propose amendments in Circular 33 of 2012.

ACTIVITIES' REPORT

Due to lack of adequate trading data and non-market representative prices being calculated from the TFC Valuation Model for non-traded instruments, the Board of Directors on 03 August, 2018 had formed an AD HOC Committee to review the Valuation model of debt instruments and propose amendments in the valuation Circular 33 of 2012 and the committee continued during this year till the completion of its assignment.

The Committee reviewed the existing valuation model and proposed certain amendments which were back tested and simulations were run over on the data of the past 10 years. The Committee tried to address the issues inherent in the current model and to minimize the use of discretion in that model but noted that as the trading data available with MUFAP is very less, the results arrived from the simulation testing were not making meaningful impact in the volatility.

After detailed deliberations and simulations, the Committee proposed the following amendments in the Circular 33 of 2012:

- 1) To calculate the yields, all debt instruments shall be divided into two sectors (i.e. Shariah and Conventional) and separate yield matrix shall be calculated for each.
- 2) Due to lack of adequate trading data we propose that valuation be done once a month instead of fortnightly.
- 3) The number of trading days be increased from 15 days to 30 days and from 30 days to 60 days to increase the number of trades that can be captured.
- 4) We propose to use KIBOR instead of PKRV to calculate credit spreads as currently future cash flows are calculated on KIBOR while spreads are calculated on PKRV leading to a mismatch.
- 5) Enhancement in the maturity buckets by breaking the over 5 years bucket into two; namely 5-7 years and over 7 years.
- 6) To select the data point on which to make the matrix: Use weighted average of all trading points available. All traded volume will be multiplied with their ratings weights.
- 7) Introduction of Floors and Caps based on one year rolling historical trading prices so the model calculated prices remain within the trading bands and not go to unrealistic prices.

The same had been proposed to SECP by the Board and is currently under review at the SECP.