

# Code of Qualification for Investment Facilitators and Distributors of MUFAP (Draft Awaiting SECP's Approval)

## 1. Introduction

The following are mandatory requirements issued by Mutual Funds Association of Pakistan ("MUFAP") for those interested in registering as Distributors for the marketing and distribution of mutual funds. MUFAP may also make changes to these requirements as and when necessary.

## 2. Definitions

Unless the context requires otherwise, words or expressions contained in this document shall have the following meaning assigned to them. Words in the singular shall include the plural and vice versa; words importing the masculine gender shall include the feminine gender and words importing persons shall include bodies corporate.

- i. "Asset Management Company" "AMC" or a "Collective Investment Scheme" "CIS" means an institution, a corporation or an organization that is registered with MUFAP to undertake, on behalf of a person or group of person(s) the management of a portfolio of securities for the purposes of investment; An AMC or CIS can also be referred to as "Management Company" "MC";
- ii. "Client" means investor in the mutual funds;
- iii. "Code" means the Code of Ethics and Standards of Professional Conduct for the mutual fund industry issued by MUFAP;
- iv. "Dealing in mutual funds" means marketing and distribution of mutual fund units, pension fund units, investment plans, and the like;
- v. "Distribution company/ Distributor" means a company, firm or a bank appointed by the Management Company and after intimation to the trustee for performing the distribution function and may also include the management company.;
- vi. "Distribution Point" means any registered branch, registered outlet or any other registered premise of the AMC/ Distributor used as a distribution channel for the purpose of marketing and distribution of mutual fund units;
- vii. "Eligible Persons" include eligible firms and institutions as mentioned in Clause 3 of these Guidelines and "Eligible Person" shall mean any one of them.
- viii. "Investment Facilitators" "IFA" means individuals who have passed the Level-1 exam conducted by MUFAP or the Institute of Capital Markets (and other subsequent exams as conducted by MUFAP or the Institute of Capital Markets) and who are duly registered with MUFAP. They include any persons dealing in mutual fund units or any staff, employee or officers under a contract of employment with a Distributor and who are

duly registered with and authorized by MUFAP to market and distribute mutual fund units. This term shall also apply to the approved agents of the AMCs'/CISs.;

- ix. This term shall also apply to the approved agents of the AMCs/ CISs.
- x. "Registered Service Provider" means Distribution Company / Distributor and Investment Facilitators as defined in Clause v and viii above which apply for and are registered as Registered Service Providers of MUFAP.

### **3. Eligibility**

Banks / DFIs / NBFIs:

- i. They must provide an undertaking that they will follow the Code of Ethics prescribed by MUFAP, which is listed below.
- ii. They will ensure that the staff designated to perform the distribution function has the minimum required level of product knowledge to be able to advise clients effectively.
- iii. They must provide an undertaking that it is not prohibited under law from carrying out the business of fund distribution and selling.

Other Companies, Firms and Individuals:

- i. They must provide an undertaking that they will follow the Code of Ethics prescribed by MUFAP, which is listed below.
- ii. They must ensure that their sales staff has received proper certification to undertake selling activity by clearing the required certification exam. Compliance to be achieved latest by June 2011.
- iii. They must conduct appropriate background checks of their employees and ensure:
  - a. Two satisfactory references are received, and
  - b. No past criminal record of the employee
- iv. They must provide an undertaking that it is not prohibited under law from carrying out the business of distribution and selling

### **4. Application Submission**

- i. Please find attached as Annexure 1 the Form that needs to be filled by the Investment Facilitator(s) and Distributor(s) at the time of submission of application to MUFAP to be approved as a Registered Service Provider

### **5. Miscellaneous**

- i. The MUFAP approval as a registered Service Provider will be subject to annual renewal and the application for renewal must be submitted either on company letter head (in

case of corporate, institution or legal entity) or via a renewal request letter in case of individuals along with the prescribed processing fee.

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- ii. All advertisements and promotional materials in relation to the mutual funds shall comply with the MUFAP's guidelines on mutual fund advertisements and promotional materials.
- iii. The marketing and sales agreement between an AMC and the MUFAP registered service provider shall include (a) a binding clause stating that the registered service provider will at all times abide by MUFAP Code of Ethics, SECP issued Code of Ethics and Best Practices, etc and (b) will always maintain its registration with MUFAP as a registered service provider.
- iv. The Registered Service Providers are required to comply with and ensure compliance with the provisions of any legislation, regulation, the Code or other code or standard of conduct promulgated or made by the SECP or any other relevant authority.
- v. In case an AMC cancels its Distribution / Marketing and Sales Agreement with any Registered Service Provider it will inform MUFAP accordingly and, if possible, will give reasons for doing so. MUFAP on its part will inform all other AMCs of this termination with a view to keeping all concerned AMCs informed.

## **6. Complaints and Non-Compliance**

- i. If an AMC has an issue or some concerns with a third party research report, the AMC can report the matter to the MUFAP secretariat who will then take up the issue with the concerned entity and try to address the issue. The information in such reports about the returns of the respective funds shall strictly be taken from MUFAP's website and no other source. In case some Fund has not provided its NAV to MUFAP for calculation of its returns, RSP will not look for other source but will request such fund manager to post its returns on MUFAP's website.
- ii. In case of any non-compliance by any Registered Service Provider of the Codes herein, the concerned AMC will write a letter to MUFAP highlighting this.
- iii. On receipt of the written complaint from the AMC, MUFAP will take the following actions:
  - The MUFAP secretariat will analyze the complaint
    - a. In case of a Minor infraction, MUFAP will write a letter to the Registered Service Provider for rectification of the infraction
    - b. In case of a Major infraction, MUFAP will provide a chance to the concerned entity to have its side of the story heard, and if found unsatisfactory, it will de-register the entity. However, the de-registration of any registered service provider will require approval of the Board of Directors of MUFAP.

- When a Registered Service Provider is de-registered, MUFAP will place a notice of de-registration on its website, and
  - MUFAP will also send a letter to all AMCs informing them of the deregistration of the said entity as a MUFAP Registered Service Provider.
- iv. In addition to the above, automatic suspension or expulsion can also be imposed if
- the Registered Service Provider has been found guilty for any offences by the court of law;
  - It is under liquidation;
  - It has wrongfully declared information in the application for registration as Registered Service Provider; or
  - any other circumstances which require MUFAP to act to protect the interest of the unit holders and/ or to protect the integrity of the industry, subject to MUFAP Board approval.

## **7. Rejection of Application**

- An application by any potential entity to be approved as a Registered Service Provider will be rejected in any of the following circumstances:
  - i. The Directors and / or the management or the shareholders of the applying entity has a criminal record
  - ii. The entity or any of its Directors is a defaulter against any liability due
  - iii. Any other reason that MUFAP may consider appropriate but subject to approval of MUFAP Board of Directors.

## **8. Disclaimer**

MUFAP, its Board of Directors or any of its staff shall not be responsible for any loss, damage, cost and expenses incurred by entities due to any reason whatsoever who either wish to be approved as Registered Service Providers by MUFAP as well as those are already approved as such by MUFAP.

## **Code of Ethics for Investment Facilitator and Distributors of MUFAP (Draft Awaiting SECP's Approval)**

### **A. The Codes**

- i. Professionalism
  - Registered Service Providers ('RSP') shall conduct their business in a professional manner, ensuring that, where applicable, they themselves and their staff are thoroughly knowledgeable in all areas and aspects of the mutual fund industry
- ii. Integrity
  - RSP and their staff, in the conduct of their business shall observe high standards of integrity and fairness in all dealings with investors, issuers, market intermediaries, other members, and regulatory and other government authorities.
- iii. Confidentiality
  - RSP shall respect and preserve the confidentiality of their investors or clients and the different AMCs with whom they form any contractual agreement. However in the event where a relevant authority requests the agreement to be disclosed, the parties may do so or where such disclosure has been expressly authorized in writing by such investors or clients or AMCs.
- iv. Dignity
  - RSP shall not make any defamatory, derogatory or disparaging statements against the mutual funds, officers or practices of another AMC or RSP.
  - RSP shall ensure that complaints and criticism, if any, are forwarded to the SECP, MUFAP or any other relevant authority in a professional manner.
- v. Objectivity

- RSP shall be objective in providing advice to investors and clients on the mutual funds. Objectivity requires honesty and impartiality. RSP shall not denigrate any mutual funds directly or by implications.
- vi. Fiduciary Duties
- RSP who take custody of all or any part of an investor's assets for investment purpose, shall do so with the degree of care required of a fiduciary.

## **B. Standards of Professional Conduct**

- i. Compliance with Laws
- RSP shall establish and maintain written policies and procedures for the effective control and conduct of its business and the activities of their officers and to ensure compliance with the Act, the Code and all other relevant laws, guidelines, orders, directives and policies issued, drawn up or imposed by any relevant authority including, but not limited to the SECP and MUFAP.
  - They must obtain and at all times maintain all authorization, licenses and registrations necessary for the purpose of marketing and distribution of mutual funds.
- ii. Co-operation with Governmental Bodies
- RSP shall be bound by MUFAP's Code of Conduct and shall comply with all the directions and rulings on ethics and standards issued by the MUFAP and the SECP from time to time.
- iii. Professional Selling Practices
- RSP shall endeavor to:
    - i. Provide full and latest information of schemes to investors in the form of offer documents, performance reports, fact sheets, portfolio disclosures and brochures, and recommend mutual funds appropriate for the client's situation and needs;
    - ii. Highlight risk factors of each mutual fund, avoid misrepresentation and exaggeration, and urge investors to go through offer documents/ key information memorandum before deciding to make investments;
    - iii. Disclose all material information related to the product in prospecting new deals;
    - iv. Abstain from indicating or assuring returns in any type of scheme, unless the offer document is explicit in this regard;

## ANEXURE 1

### 1. General Details

- a. Name of Company
- b. Registered Address
- c. Contact Numbers (phone and fax)
- d. Email Address
- e. Date of Initiation of business (with documentary proof)
- f. Registered Tax Number
- g. CNIC number and copy (in case of individuals)
- h. No of years of existence in Pakistan
- i. Regulatory Authority which regulates applicant
- j. Number of both full and part time employees
- k. Type of Firm
  - i. Sole Proprietorship
  - ii. Partnership
  - iii. Private Limited
  - iv. Public Limited
- l. Please provide TWO references in case of sole proprietorship and partnership

i. Reference One

ii. Reference Two

## 2. Documents

Submission of following documents

i. Memorandum of Association	Yes	No
ii. Articles of Association	Yes	No
iii. Certificate of Incorporation / Commencement of Business	Yes	No

Please tick mark which document has been submitted along with a photocopy of the same

## 3. Fees

i. Registration Fees is PKR -----.

ii. Annual Renewal Fees is PKR -----.

The above Fees can be made either through crossed Cheque or Pay Order in favor of “**Mutual Funds Association of Pakistan**”.