

Circular 2 of 2020 - Requirements for Assessing Suitability and Risk Categorization of Collective Investment Schemes(CIS)

The Board of MUFAP has discussed and prepared some standardized guidelines for its members to implement the Circular 2 of 2020 in particular the point 5 of the said circular which is reproduced as follows:

5. AMCs shall ensure that the risk-profiling related document is duly read, dated and signed by the investor prior to making an investment. In case of sale of a high risk CIS/plan to an investor who has been profiled as a low risk, AMCs shall establish appropriate mechanism to validate product suitability such as standard phone calls/SMS/Emails within the cooling-off period.

No objection received from SECP on the same vide email dated July 10, 2020. (attached as Annexure A)

Guidelines for implementation of escalation mechanism of Point 5:

Validation for product suitability will only be done the first time an investor who has been profiled as low risk is investing/ converting into a high risk product with equity exposure. For subsequent investment it will be presumed that the investor is knowledgeable and informed about the equity/ equity based funds and will be treated as an informed investor.

A. For investments/ conversions vide a physical form:

1. The signature on risk profiling document is mandatory from all investors in case of physical transactions.
2. Compliance to point 5 will be preferred in the following order: 1. Signature on risk disclosure statement, 2. CBC, 3. Emails or SMS; however each AMC, based on its size and resources and complexity of the product, should decide the mechanism they want to select.
3. AMCs may choose the appropriate mechanism of Call Back Confirmation/Email/SMS that commensurate with the complexity of the product and size of their operations to ensure compliance with the requirements of Circular No. 02 of 2020 in letter and spirit as follows:
 - a. The CBC should be from recorded line only on the phone number available in AMC's record. The SOPs should reflect 2-3 attempts to get confirmation and in case of no response, rejection of investment OR the justification to be recorded in writing on accepting the investment.
 - b. Delivery/Read receipts for emails and delivery reports for SMS should not suffice for validation, rather, SOPs should be established by AMCs reflecting for 2-3 attempts to get response confirmation and in case of no response, rejection of investments or the justification in writing on accepting the investment.

4. The preferred mode of validation for physical transaction is a written validation signed by investor on a separate document (not part of the investment/conversion form). A document only containing the risk disclosure that the investor understands that the fund he/she is investing in is a high risk fund and accepts that his/her principal may be at risk should be signed.
5. In every email and text message sent for the purpose of validation for the purpose of compliance with Circular2 of 2020 the following text should be included:

Email Text:

You have invested in (Fund Name) marked as “High” risk profile. This email is being sent to confirm your intention to make an investment in “High” risk profile category of CIS/Plans managed by AMC.

If you have any objection and/or need further understanding to invest in “High” risk profile category, please contact us within 24 hours to our sales/distributor representative or call us directly on -----

Draft SMS (considering limited characters in 1 SMS)

You have invested in (Fund Name) marked as “High” risk profile. For any clarification, plz call within 24 hours on No: -----

B. For Online Investments/ Conversions on the AMC Portal/ Digital Platform:

1. Online investments/ conversions are done by the investor themselves without any interaction/ guidance from a sales agent. Therefore, it is presumed that the investor is an informed investor who is investing after assessing his/her risk profile and investment needs. Therefore, there would be no suitability or risk profiling and validation for online transactions.
2. However, in case of online investment, there should be risk disclosure pop out window and checkbox option to click that investor understands that risk involved along with a link for investor in this pop out window which guides investor to review the offering document of the fund and latest Fund Manager Report which is available at the link.

From: Zonish Inayat [mailto:zonish.inayat@secp.gov.pk]

Sent: Friday, July 10, 2020 11:08 AM

To: Mashmooma Zehra Majeed <mashmooma.majeed@mufap.com.pk>

(mashmooma.majeed@mufap.com.pk) <mashmooma.majeed@mufap.com.pk>

Cc: Khalida Habib <khalida.habib@secp.gov.pk>; Waseem Khan <waseem.khan@secp.gov.pk>

Subject: RE: Standardization of Implementation of Circular 2 of 2020 - Requirements for Assessing Suitability and Risk Categorization of Collective Investment Schemes(CIS)

Importance: High

Dear Madam,

In reference to your below email and attached procedure, we have no objection if validation for product suitability is done only the first time an investor who has been profiled as “low risk”, invests or converts into a “high risk” product, subject to the following conditions:

1. The signature on risk profiling document is mandatory from all investors in case of physical transactions.
2. In case of sale of a high risk product, the AMCs may choose the appropriate mechanism of Call Back Confirmation/Email/SMS that commensurate with the complexity of the product and size of their operations to ensure compliance with the requirements of Circular No. 02 of 2020 in letter and spirit as follows:
 - a. The CBC should be from recorded line only on the phone number available in AMC’s record. The SOPs should reflect 2-3 attempts to get confirmation and in case of no response, rejection of investment OR the justification to be recorded in writing on accepting the investment.
 - b. Delivery/Read receipts for emails and delivery reports for SMS should not suffice for validation, rather, SOPs should be established by AMCs reflecting for 2-3 attempts to get response confirmation and in case of no response, rejection of investments or the justification in writing on accepting the investment.
3. In case of online investment, there should be risk disclosure pop out window and checkbox option to click that investor understands that risk involved along with a link for investor in this pop out window which guides investor to review the offering document of the fund and latest Fund Manager Report which is available at the link.

Best Regards,

ZONISH INAYAT | DEPUTY DIRECTOR

Specialized Companies Division | Policy, Regulation and Development Department

PABX: +92 [51] 9207091-4 [326] | FAX: +92 [51] 9100473