



**Securities & Exchange Commission of Pakistan**  
**Specialized Companies Division**  
**Policy, Regulations and Development Department**

No. SCD/PW/IP(R-24)

May 09, 2013

**Circular No 6 of 2013**

**Subject: Amendments in Circular 36 of 2009 dated December 10, 2009 – Investment and Allocation Policies for the Pension Funds Authorized under the Voluntary Pension System Rules, 2005**

Pakistan Mercantile Exchange Limited (Commodity Exchange) is in operation since May 2007 and few commodity futures contracts are being traded on it. In order to allow Pension Funds to diversify investment portfolio and to take advantage of a new asset class, the following amendments are hereby incorporated in Circular No 36 of 2009 (the "Circular") dated December 10, 2009, in terms of sub-rule (3) of rule 14 and sub-rule (2) & (3) of rule 24 of the Voluntary Pension System Rules, 2005:-

1. On page 1 of the Circular under the heading of "Investment Policy", paragraph 2) shall be read as under:-

*"A Pension Fund shall consist of three or more sub funds."*

2. On page 8 of the Circular, the following text stands added before the heading "Allocation Policy" :-

***"Commodity Sub-fund***

- a) *A Commodity Sub-fund of a Pension Fund shall invest only in those commodity futures contracts that are traded at the Pakistan Mercantile Exchange.*
- b) *A Commodity Sub-fund shall only invest in cash settled futures contracts, except for gold for which a Commodity Sub-fund, in addition to the cash settled futures, may also invest in deliverable futures contracts.*
- c) *At least seventy percent (70%) of Net Assets of a Commodity Sub-fund shall remain invested in commodity futures contracts during the year based on quarterly average investment calculated on daily basis.*
- d) *At least 10% of the net assets of the Commodity Sub-fund shall remain invested in government treasury bills or government securities having less than 90 days time to maturity or kept as deposits with scheduled commercial banks which are rated not less than AA (Double A) by a rating agency registered with the Commission. In case of Shariah compliant Commodity Sub-fund, funds may be deposited with Islamic commercial banks,*

having not less than A plus rating or Islamic windows of commercial banks, having not less than AA (Double A) rating.

- e) A PFM may invest any surplus (un-invested) funds in government treasury bills and government securities having less than one year time to maturity or keep as deposits with scheduled commercial banks which are rated not less than AA (Double A) by a rating agency registered with the Commission.
  - f) Maximum exposure of the Commodity Sub-fund shall not at any time exceed 90% of its net assets to ensure no gearing/leverage by the Commodity Sub-fund. For this purpose, the difference between the contract price and upfront margin i.e. the "earmarked cash" shall be blocked in an earmarked account for settlement purposes and the Pension Fund Manager along with the Trustee of the pension fund shall ensure payment of settlement amount and margin calls on behalf of the Commodity Sub-fund within the time stipulated by the exchange.
  - g) A Pension Fund Manager may invest the earmarked cash in the following manner:
    - I. In cash and near cash instruments which include cash in bank accounts (excluding TDR) and treasury bills.
    - II. Rating of any bank with which funds are placed shall not be lower than AA (Double A). In case of Shariah compliant Commodity Sub-fund, funds may be deposited in Islamic commercial banks, having not less than A plus rating or Islamic windows of commercial banks, having not less than AA (Double A) rating.
    - III. Time to maturity of any instrument/asset shall not exceed 90 days. Further, maturity of each investment/asset shall not exceed the maturity of the corresponding commodity futures contracts for which the cash/assets have been earmarked.
  - h) A PFM shall not sell commodity futures contracts on behalf of a commodity sub-fund without pre-existing interest of the Commodity Sub-fund.
  - i) An Islamic Commodity Sub-fund shall invest only in Shariah compliant assets.
  - j) PFM shall ensure that before launch of any Commodity Sub-fund, it possesses sufficient systems and employs capable human resource, which includes qualified fund managers with requisite skill set to understand and deal in commodities or commodity futures contracts.
  - k) PFM shall follow forward pricing mechanism for the Commodity Sub-fund and shall mark to market on daily basis the exposure of the Commodity Sub-fund in commodities or commodity futures contracts."
3. On page 8, under the heading of Allocation Policy, the following sub-heading shall be added at the top of the table containing allocation schemes:-

**"Table 1: Allocation schemes for a Pension Fund having three (3) Sub-funds"**

4. On page 8, after Table 1, the following sub-heading and table shall be added:-

**"Table 2: Allocation schemes for a Pension Fund having four (4) Sub-funds**

<i>Allocation Scheme</i>	<i>Equity Sub-Fund</i>	<i>Debt Sub-Fund</i>	<i>Money Market Sub-Fund</i>	<i>Commodity Sub-Fund</i>
<i>High Volatility</i>	<i>Min. 40%</i>	<i>Min. 20%</i>	<i>Nil</i>	<i>Max. 25%</i>
<i>Medium Volatility</i>	<i>Min. 20%</i>	<i>Min. 40%</i>	<i>Min. 10%</i>	<i>Max. 15%</i>
<i>Low Volatility</i>	<i>Min. 05%</i>	<i>Min. 60%</i>	<i>Min. 15%</i>	<i>Max. 05%</i>
<i>Lower Volatility</i>	<i>Nil</i>	<i>Min. 40%</i>	<i>Min. 40%</i>	<i>Nil</i>

5. This circular shall come into force with immediate effect.

  
(Zafar Abdullah)  
Commissioner SCD

**Distribution:**

- i. Chief Executive, All Pension Fund Managers
- ii. Trustees of Pension Funds
- iii. Mutual Fund Association of Pakistan
- iv. Pakistan Mercantile Exchange
- v. Karachi Stock Exchange
- vi. Lahore Stock Exchange
- vii. Islamabad Stock Exchange
- viii. ICAP
- ix. National Clearing Company of Pakistan Limited