



**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
SPECIALIZED COMPANIES DIVISION
POLICY, REGULATION AND DEVELOPMENT DEPARTMENT**

No. SCD/CIRCULAR/ /2020

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Circular No. 7 of 2020

Subject: Collective Investment Schemes investments in exchange traded equity future contracts

The Securities and Exchange Commission of Pakistan (the "Commission"), in exercise of powers conferred under section 282B(3) of the Companies Ordinance, 1984 read with Regulation 55(15) and 58(2) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the "NBFC Regulations"), hereby prescribes following conditions for investment in equity future contracts by collective investment schemes (CIS):

1. All categories of CIS which are allowed to invest in equity securities or equity spread transactions may take equity exposure through equity future contract (Deliverable Futures Contracts, Single Stock Cash Settled Futures and/or Stock Index Futures Contracts) subject to enabling provisions in their respective offering document.
2. A CIS may take exposure through equity future contracts for meeting the investment objective of the CIS or for the purpose of hedging.
3. A CIS may purchase deliverable equity future or cash settled equity future and for this purpose the difference between the contract price and upfront margin shall be invested in cash and near cash instruments.
4. A CIS cannot blank sale in deliverable equity future contract.
5. A CIS may sell deliverable equity futures contracts against its existing ready market open purchase position in the same scrip if such open position will settle prior to or on the same settlement date as the settlement of deliverable equity futures contracts or against shares held in CDC.
6. A CIS may sell deliverable equity futures contracts against its existing deliverable future purchase position in the same security till such time that such position is settled or a CIS may sell cash settled equity futures contract against its existing cash settled equity future purchase position in the same security till such time that such position is settled. However, such exposure shall not exceed 40% of the net assets of the scheme.
7. A CIS may sell in cash settled equity futures contracts maximum up to 5% of the net assets of the CIS without pre-existing interest in the security provided that it complies with the relevant regulation of Pakistan Stock Exchange Limited Regulations. However, such position shall be covered by underlying cash or near cash instruments.
8. An AMC must ensure that exposure (net long or net short) in equity futures contracts shall not, at any time, exceed net assets of the CIS.
9. An AMC along with the trustee shall at all times ensure to fulfill its obligations with respect to equity futures contracts, whether in the form of payment or delivery.



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10. An AMC must ensure compliance with exposure limits prescribed under Regulation 55 of the NBFC Regulations.
11. AMCs taking exposure through equity futures contracts shall ensure that necessary risk management measures are in place to enable the AMC to monitor, measure and manage the risks of the CIS position in equity futures contracts and their contribution to the overall risk profile of the CIS.
12. An AMC shall make appropriate disclosures in the offering document of CIS which at least covers the following: -
 - A brief disclosure regarding introduction of equity futures contracts, their period of maturity and how equity future contracts can facilitate in hedging or attaining the investment objective of the scheme.
 - Extent and manner of participation of the schemes in equity future contracts.
 - Risk factors of exposure in equity futures contracts explained by suitable numerical examples.
 - A statement as to whether future contracts are used for the purpose of hedging or meeting the investment objective of the scheme.
 - A description of risk management and compliance procedures and controls adopted to ensure appropriate risk management.
13. Exposure in futures contracts shall be marked-to-market on a daily basis as per requirement of the Pakistan Stock Exchange.

This circular will supersede the Commission's earlier letter No. NBFC-II/MUFAP/292/2011 dated June 21, 2011.


Musarat Jabeen
Executive Director

Distribution:

1. Chief Executive Officers, Asset Management Companies
2. Mutual Funds Association of Pakistan
3. Trustees of Collective Investment Schemes