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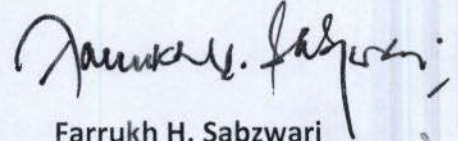
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Circular No. 14 of 2021

Subject: Guidelines on Mutual Fund Digital Distribution Platform

The Securities and Exchange Commission of Pakistan ("the Commission") in exercise of powers conferred under section 282B (3) of the Companies Ordinance, 1984 and section 172 of the Securities Act, 2015 issues attached guidelines for mutual fund digital distribution platform.

The guidelines set out principles and requirements applicable to mutual fund digital distribution platforms for Collective Investment Schemes (CIS) and or Voluntary Pension Funds (VPS) for conducting their licensed/ regulated activities through Online Platforms including digital advice or automated advice (i.e. robo-advice).


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Commissioner (SCD)

Enclosed: As above

Distribution:

1. Chief Executive Officers, Asset Management Companies
2. Chief Executive Officer, IT Minds (Private) Limited
3. Mutual Funds Association of Pakistan
4. Trustees of Collective Investment Schemes

"Say no to Corruption"

GUIDELINES FOR MUTUAL FUND DIGITAL DISTRIBUTION PLATFORM

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Chapter 1: Introduction

- 1.1** These Guidelines are issued under section 282B (3) of the Companies Ordinance, 1984 and section 172 of the Securities Act, 2015 and set out principles and requirements applicable to mutual fund digital distribution platforms for Collective Investment Schemes (CIS) and or Voluntary Pension Funds (VPS) operated by licensed/ regulated entities/ individuals.

Note: A licensed/ regulated entity may operate different websites, platforms and other channels such as social media accounts for posting information about CIS/ VPS and transacting in them. The Securities and Exchange Commission of Pakistan (SECP) will take into account activities targeting investors conducted by a licensed/ regulated entity or individual via all channels in their totality while considering the licensed/ regulated entity's or individual's compliance with the requirements in these Guidelines.

- 1.2** These Guidelines apply to all licensed/ regulated entities/ individuals and prescribe the minimum requirements for conducting their licensed/ regulated activities relating to order execution, distribution and/or advisory services in respect of distribution of CIS/ VPS units through Online Platforms including digital advice or automated advice (i.e. robo-advice), here-in-after referred to as Digital Distributors in these guidelines. While performing their functions, Digital Distributors shall ensure adherence with the ethical selling guidelines issued by MUFAP as amended from time to time.
- 1.3** These Guidelines do not have the force of law and shall not be interpreted in a way which would override the provision of any law for the time being in force.

Chapter 2: Principles

2.1 Design

- (a) Digital Distributor shall ensure that the digital distribution platform is appropriately designed and operated with due skill, care and diligence including compliance with the prevailing regulatory requirements and/or as specified by the Commission from time to time;
- (b) Digital Distributor shall diligently act while selecting investment in any CIS/ VPS to be made available on the digital distribution platform and when posting any information and materials on the digital distribution platform. In this regards, the distributor shall ensure compliance with sub-regulation c of regulation 66A of Non-Banking Finance Companies and Notified Entities Regulations, 2008;
- (c) Any conflicts of interest shall be properly managed and minimized to ensure fair treatment with investors, e.g. digital distribution platforms shall not be designed in a way that reflect that the distributor intends to take advantage for itself or any of its related parties or group companies or employees at the expense of its clients or investor(s). Digital distributor shall develop proper APIs for transmitting transactional information to and from AMCs. Manual process for uploading/ downloading information shall only be used in cases where API Integration is not functioning;
- (d) Platform must be skillfully & diligently designed to ensure adequate risk profiling/ suitability of the CIS/ VPS to the investor;
- (e) All systems and processes underpinning the operation of the digital distribution platform are robust and properly maintained so that the risk of fraud, errors and omissions, interruptions or other operational or control failures is minimized and appropriately managed; and
- (f) A digital distributor offering robo-advisory services shall effectively design and implement a compliance program that:
 - includes a robust testing program of the algorithmic code and the post implementation monitoring of its performance;
 - addresses adherence to the regulatory obligations concerning automated financial advisory.

2.2. Information for Investors

- a. A Digital Distributor shall clearly and adequately disclose relevant material information on its platform that may include but not limited to:
 - (i) provision of up-to-date CIS/ VPS offering documents, fund manager report, NAV, link to iNAV or any other relevant information to the investors enabling investors to make an informed decision by providing link of the relevant AMC website;
 - (ii) timely provision of information to investors enabling them to appraise the position of their investments (e.g., in the event of any suspensions in the redemption of CIS/ VPS, any proposed merger or termination of CIS/ VPS or any other material information provided by an asset management company). In this connection, a Digital Distributor shall put in place proper arrangements and take adequate measures to enable it to access and be informed of up-to-date information concerning all CIS/ VPS available on its Online Platform;
 - (iii) Simple language shall be used in making any disclosures and presenting information to make them easy to read and understand. Design features such as pop-up boxes or tooltips, or other such means or media may be used for better understanding; and
 - (iv) Contact details of the digital distributor for handling client enquiries and complaints.
- b. A digital distributor offering robo-advisory services shall ensure provision of:
 - (i) accurate description of its services and its updation on a regular basis;
 - (ii) sufficient information on the platform enabling investors to make an informed decision regarding employing its services;

This may include information on the limitations, risks and how key components of its services are generated (such as a description of how underlying algorithms operate, any limitations of the algorithm, how the portfolio rebalancing mechanism operates and associated risks). Robo-advisers shall also inform and explain to investors and clients the degree of human involvement that it provides.

2.3. Risk management

Digital Distributors shall ensure the reliability and security (including data protection and cybersecurity) of their platform. The measures to be taken by the distributors include but are not limited to the following:

(i) System Reliability

- (a) Digital Distributor shall ensure that its platform and all modifications therein are tested before deployment and regularly reviewed to ensure reliability;
- (b) Digital Distributor shall, within 24 hours of occurrence, report any material service interruption or other significant issues related to its platform to the Commission. The report should also include the measures distributor plans to take to resolve the issue; and
- (c) Digital distributor shall ensure 24/7 availability and access to the platform.

(ii) Contingencies

- (a) Digital Distributor shall identify and manage the associated risks (including any unintended consequences) prudently with appropriate contingency arrangements in place. Such arrangements shall include a written contingency plan to cope with emergencies and disruptions related to the digital distribution platform. The contingency plan shall at least include:

- i. a suitable backup facility or alternative arrangements for order execution in the event of an emergency;
 - ii. arrangements to ensure business records, client and transaction databases, servers and supporting documentation are backed up in an off-line medium. Off-site storage is generally expected to be subject to proper security measures; and
 - iii. a plan for efficient dealing with investor and regulatory enquiries from SECP;
- (b) Digital Distributor shall ensure that the contingency plan to deal with potential emergencies and disruptions is periodically tested and is viable and adequate;
- (c) Digital Distributor, in the event of a material delay or failure of the platform, shall in a timely manner:
 - i. ensure that the material delay or failure is rectified;
 - ii. inform investors about the causes or possible causes of the material delay or failure and how investor orders will be handled; and
 - iii. make good any loss caused to the investors due to delay or failure of the platform. However, the distributor shall not be responsible for losses due to circumstances beyond its control such as force majeure, failure or malfunctioning of hardware/software despite the best efforts of the distributor or the third party to which such function is delegated and virus or cyber-attack despite the fact that anti-virus and other reasonable measure were in place.

2.4 Governance, Capabilities and Resources

Digital Distributor shall not only ensure placement of robust governance arrangements for overseeing the operation of its platform but also the availability of adequate human, technology and financial resources to ensure that the operations of its platform are carried out properly. Digital Distributor shall establish and implement written internal policies and procedures on the operation of its platform to ensure that:

- (a) at least one senior officer is made responsible for the overall management and supervision of the digital distribution platform;
- (b) there is a formalized governance process with input from the dealing, information technology, risk and compliance functions;
- (c) there are clearly identified reporting lines with supervisory and reporting responsibilities assigned to appropriate staff members; and
- (d) there are managerial and supervisory controls designed to manage the risks associated with the use of the digital distribution platform.

A Digital Distributor shall conduct regular reviews to ensure that these internal policies and procedures are in line with regulatory developments and promptly rectify/ remove any deficiencies identified.

In operating its digital distribution platform, a Digital Distributor shall ensure that he has sufficient technology resources to safeguard data integrity, including confidential investor information, and meet current and projected operational needs (for example, in respect of system capacity).

2.5 Review and Monitoring

Appropriate reviews of all activities conducted on the Online Platform shall be performed by the distributors as part of their ongoing supervision and monitoring obligation. This includes, but is not limited to:

- (a) Distributor shall conduct regular reviews at least on an annual basis and also ad-hoc reviews when required like in situation of any major market event. The reviews shall not only cover the conducted activities on the platform but will also assess its design and operation including the processes and outcomes of any client profiling, investment product selection

and risk profiling, suitability assessment, as well as the reasonableness of any recommendation or advice generated by the algorithm used (including any recommended model portfolio) and any rebalancing conducted. It shall include sample checking and testing by a suitably qualified person.

- (b) There shall also be policies and procedures to follow up on any review results and to implement any required enhancements.
- (c) Where any function is outsourced to external service provider(s), the digital distribution platform shall exercise due skill, care and diligence in the selection, appointment and ongoing monitoring of the outsourced service provider(s) to ensure proper performance of the outsourced function.
- (d) A digital distributor offering robo-advice services shall ensure regular monitoring and testing including periodic review of the robo-advisor algorithms used and shall, on an annual basis, arrange a third party independent review to validate such algorithms.

2.6 Record Retention

- (i) Digital Distributor shall maintain proper records relating to the platform, including but not limited to:
 - (a) comprehensive documentation on the design of digital distribution platform, operational processes and risk management controls, including any testing, reviews, modifications, upgrades or rectifications of the platform and records of the applicable software versions. The documentation shall be retained for a period of not less than 10 years after the platform ceases to operate;
 - (b) proper audit trails of activities and transactions conducted on the digital distribution platform, including the processes and outcomes of any client profiling, investment product selection, risk profiling, suitability assessment, provision of product information, disclosure of warning statement, advice provided (if any), and incident reports for all material delays or failures of the platform. The audit trails and records shall be retained for a period of not less than 10 years or such longer period as may be required.
 - (c) audit trails and records relating to all suitability assessments (including trails and records demonstrating the transactions suitable) shall be retained for at least 10 years for CIS/ VPS.
- (ii) The Commission may:
 - (a) require the digital distributor to provide access to and copies of the audit logs on all applications for units in the CIS/ VPS transmitted through its online facility;
 - (b) require the distributor to provide any other information, it requires; and
 - (c) require the digital distributor to maintain a record of the investors who exercised their cooling off right along with the relevant details of the CIS/ VPS in respect of which the right was exercised.

Chapter 3: General Requirements

3.1 Conduct Requirements

- (i) Digital distributors must comply with all applicable laws and regulations;
- (ii) Digital Distributor shall disclose the limited availability of investment products in cases where it provides services only for CIS/ VPS issued by it and/ or by its related companies;
- (iii) Digital Distributor or their related companies shall ensure compliance with the requirement of not taking advantage for itself or any of its related parties or group companies or employees at the expense of its clients or investor(s);
- (iv) Use of gifts in promoting a specific CIS/ VPS must be prohibited.

3.2 List of Online Providers

- (i) Asset Management Companies (AMCs) are required to keep their websites updated with the details and addresses of the digital distribution platforms accepting investments in their CIS/ VPS;
- (ii) Any changes to the list and/ or addresses of digital distributors must be immediately updated on AMC's website.

3.3 Materials posted on Digital Distribution Platform

The Digital Distributors, while posting any advertisement, research report and other CIS/ VPS specific material on their Online Platforms, shall particularly note the following related requirements:

- (i) the advertisements do not contain false, biased, misleading or deceptive information and are in accordance with Circular No.16 of 2014 dated July 3, 2014 issued by the Commission;
- (ii) conflicts of interests shall be taken into account for research reports; and
- (iii) exercise due skill, care and diligence in expressing any opinion.

3.4 Systems Security and Integrity

- (i) Adequate & appropriate systems and security measures must be in place to ensure reliability, availability, integrity, and confidentiality of the application or other related information or transactions transmitted via the facility, including without limitations, measures to ensure the following:
 - (a) Proper audit trails to track access, transaction, and changes made to investor data, including investor information like clients' name, address, account number, contact details and traffic data (date, time, size, duration, webpage visited and content of communication);
 - (b) System capacity, performance, and resilience;
 - (c) Back-up systems and procedures to cater for any possible outages, transmission delay, disruption, and system capacity problems;
 - (d) Confidentiality, protection and privacy of any personal and proprietary information transmitted by the client, subject to any requirement of law requiring disclosure of such information;
 - (e) Detection and prevention of unauthorized access to the system;
 - (f) Properly documented formalized policies & procedures pertaining to the system;
 - (g) Proper controls including access control, input output control and physical control; and
- (ii) digital distributor shall obtain international certification w.r.t. information security and business continuity;
- (iii) digital distributor shall get Periodic Vulnerability Assessment and Penetration Testing (VAPT) of its system through third party assessment;
- (iv) the digital distribution platform provider must take timely remedial actions to rectify any breach of security or systems failure. Such a breach or failure may include the inability to access the electronic prospectus from the website of the platform. The remedial action must be reported to the Commission during the next business day of such action being taken; and
- (v) digital distributors shall impart adequate training and education for employees that may include areas relating to initial and follow-up assessments of how digital tools perform, heightened sensitivity to conflicts of interest, etc.

Chapter 4: Suitability Requirement

4.1 The investments through digital distribution platform are subject to the assessment of suitability requirements and risk categorization of CIS as specified by the Commission vide Circular No. 2 of 2020 dated February 2, 2020 and Circular No. 32 of 2020 dated October 22, 2020.

4.2 Digital distributors shall ensure availability of adequate Governance and supervision mechanism across customer profiling and asset allocation through portfolio selection, rebalancing, tax-loss harvesting, and trade execution, etc.

4.3 Distributor shall exercise its due diligence to ensure that the recommendation or solicitation for the client is suitable and in accordance with the available information of the investor. AMC's shall review the algorithms used by distributor and check the suitability analysis performed by the distributor on test check basis. However the ultimate responsibility to ensure suitability rests with the AMC.

4.4 In determining the risk profile, digital distributor shall base its assessment on information about the investor obtained through risk profiling questionnaire process. The individual risk profile of an investor shall also be reviewed and updated regularly, where it deems appropriate. Digital distributor shall pay particular attention to the design of the questions and the underlying scoring mechanism that shall be properly designed to accurately reflect the personal circumstances of an investor. Digital distributor shall also have appropriate processes in place to periodically review its investor risk profiling methodology and mechanism.

4.5 In discharging the suitability requirement, digital distributors shall ensure:

- a) to act diligently and carefully in providing any advice and ensuring that its advice and recommendations are unbiased and are based on thorough analysis and after considering available alternatives (e.g. availability of any similar investment products which may be less costly);
- b) shall establish a proper mechanism to assess the suitability of investment products. The mechanism must be holistic to account for all relevant factors concerning the personal circumstances of the investor, including concentration risk based on the available information with the distributor; and
- c) availability of appropriate tools for assessing Investor concentration risk that is obtained through know-your-customer process of distributor and any already held investment portfolio.

4.6 A digital distributor offering robo-advisory services:

- (i) shall ensure that the client profiling tools and/ or questionnaires are properly designed such that sufficient information is obtained to enable it to provide advice that is suitable based on the clients' personal circumstances;

This will include designing the client profiling tools and/ or questionnaires such that clients are provided with the opportunity to provide additional explanatory and contextual information, where appropriate.

- (ii) shall have in place mechanisms to identify and seek to reconcile any inconsistencies in the information provided by the client e.g. the advisers can alert the client to such circumstances through pop-up boxes and can provide the client with an opportunity to change the information provided. The adviser may also be able to internally flag any inconsistent information for review and follow-up;

- (iii) if uses risk scoring questionnaires to risk profile clients and/ or to determine the advisory services to be provided to the clients, shall pay particular attention to the design of the questions and the underlying scoring mechanism such that they are properly designed to accurately reflect the personal circumstances of the client; and
- (iv) shall provide suitable advice to ensure that the investment advice is suitable and in the best interests of the clients.

Chapter 5: Procedures for Issuance, Redemption, Switching, Transfer, and Exercise of Cooling-off Right

5.1 Submission of Application Forms and Confirmations

- (i) It shall be mandatory for the investors to submit the following confirmations prior to submitting an electronic application form to the digital distribution platform:
 - (a) That the investor has read the electronic offering document and fully understands its contents;
 - (b) That the investor has read and accepted the terms & conditions as set out by digital distribution platform;
 - (c) That the investor has allowed the digital distributor to disclose his/ her information to the entities involved in the CIS/ VPS as well as to the Commission.
- (ii) The investor, on submission of online application for investment in CIS/ VPS, must receive a confirmation receipt. The receipt must be downloadable into an electronic storage medium and/ or printable enabling the investor to preserve the confirmation for his or her own record. The digital distribution platform must provide clear and simple instructions for downloading and printing of the confirmation;
- (iii) Where there is a prescribed period for investment in specific CIS/ VPS or where the transactions of units in the scheme are suspended, appropriate steps or mechanisms must be put in place to reject any application forms that are submitted or monies paid after the close of the application period or during the suspension period;
- (iv) Where a supplementary offering document or trust deed is registered by the Commission for a CIS/ VPS for which online investment of CIS/ VPS was available, a notification informing the changes shall be sent to all investors of that CIS/ VPS;
- (v) Online investment transaction shall be processed on the basis of the time and date of the investment order entered by the investor. NAV shall be allocated on the basis of respective cut-off timings of the fund and units will be issued after realization of subscription money.

5.2 Opening of Online Investment Account

The platform shall ensure clearly defined policies and procedures for the following:

- (i) Clear and simple instructions on how an investor can open an online transaction account in line with the requirements prescribed by the Commission vide circular 35 of 2020 dated December 30, 2020 and circular 3 of 2021 dated February 11, 2021;
- (ii) Procedures to ensure that the “know your client” rule is complied with;
- (iii) Reliable authentication mechanism to ensure clients’ identity; and
- (iv) Compliance with applicable AML/CFT regulatory framework should be ensured;

5.3 Redemption and Conversion of CIS/ VPS Units

- (i) Appropriate procedures and policies on online redemption and conversion by and payment to investors shall be clearly set out on the website of the digital distributor;
- (ii) The investor must receive a confirmation of receipt upon submission of the redemption or conversion application. The receipt must be downloadable into an electronic storage medium and/ or printable enabling the investor to preserve the confirmation for his or her own record.

The digital distribution platform must provide clear and simple instructions for downloading and printing of the confirmation; and

- (iii) Where the platform provider does not intend to provide for online redemption and conversion of units in the CIS/ VPS, a notification informing clients of the procedures for redeeming and conversion of units in the scheme must be provided on the distributor's portal.

5.4 Cooling-off Right

- (i) Same cooling-off rights shall be granted to investors investing in CIS/ VPS through digital distribution platform or through traditional modes;
- (ii) Appropriate steps or mechanisms must be place to allow clients to exercise the cooling-off right and to obtain refund of monies paid for their investment in CIS/ VPS. The procedures for exercising the cooling-off right and for the refund of monies paid must be provided;
- (iii) Investor must receive a confirmation upon exercising the cooling-off right. The conformation must be downloadable into an electronic storage medium and/ or printable enabling the investor to preserve the confirmation for his or her own record. The digital distribution platform must provide clear and simple instructions for downloading and printing of the confirmation;
- (iv) Where the digital distributor does not provide for online exercise of the cooling-off right, it shall inform the procedure on how this right can be exercised to its investors.

Chapter 6: **Complaint Management**

The Digital Distributor shall develop following complaint management process for effective handling of related complaints. The said complaint management process of distributor shall be duly integrated with the complaint management system of AMCs or at least a mechanism shall be developed for regular MIS sharing and tracking between distributors and AMCs:

a. Complaint Lodging

A system shall be developed whereby the investors can lodge their complaints through the following multiple channels:

- i. **Call Centre** – Investor shall be able to call at a 24/7 toll-free number of the platform during business hours;
- ii. **Email** – Investor shall also be able to lodge complaint through email;
- iii. **Platform** – Investor shall also be able to log his/ her complaint through a complaint form available at the digital distribution platform;
- iv. Every Complainant shall be given a unique Complaint Number for future tracking; and
- v. All necessary information of the complainant including nature of complaint shall be logged to facilitate its investigation and resolution

b. Acknowledgment to complainant

- i. Automated acknowledgement through email shall be sent to investor for registering complaints through any channel with Complaint Number.
- ii. In case of delay in complaint resolution, customer shall accordingly be informed.

c. Resolution of complaint

- i. Complaint shall be forwarded to the concerned department along with a brief description of issue;
- ii. The relevant departments will be responsible to resolve the complaint within defined time and keep the Customer Services Department updated on current status;
- iii. After resolution of complaint formal communication will be made by customer services in a written form;
- iv. Resolution Communication shall specify clearly that complaint has been resolved.

Chapter 7: Disclosures

The digital distributor must prominently provide the disclosures as set out in these guidelines and all the applicable regulatory disclosures/ risk disclaimers/ declarations, etc. including details of applicable sales load and contingent load. In determining whether the disclosures are sufficiently prominent, the overall layout and size of the disclosures shall be considered and compared with the font sizes used on the website or electronic medium and the presentation of the information therein may be considered. The disclosures shall be of the same size and type as rest or the majority of the text in the website or electronic medium.

(i) Risk of Using the Internet

A disclosure relating to inherent risks of conducting transactions through the internet shall be given stating that a investor wishing to trade in units of CIS/ VPS through the internet assumes such risks.

(ii) Alternative Methods for Transacting in CIS/ VPS

A disclosure informing investors of alternative methods of transacting in units of a CIS/ VPS other than via the platform provided for online investment in CIS/ VPS.

(iii) Procedures for Withdrawal of CIS/ VPS on change in their fundamental attributes

A disclosure informing the investor of the mechanisms or procedures for withdrawal application of the CIS/ VPS resulting from amendments in fundamental attributes of the constitutive documents of CIS/ VPS.

(iv) Processing of Online Applications

A disclosure stating:

- (a) that electronic investment application forms will be processed upon receipt of the online providers confirmation notice; and
- (b) the contact details as to where a investor may confirm the status of their application.

(v) Suspension of Transactions

Where there is a suspension of the transactions of units in a CIS/ VPS, a disclosure informing inability of the distributor to conduct transactions. The disclosure shall also inform investors regarding:

- (a) the period in or dates on which the suspension takes place; and
- (b) the date on which transactions of units in the scheme will resume.

(vi) Cancellation of Transactions

Where there is a cancellation of any transactions of units in a CIS/ VPS, a disclosure informing the cancellation will be provided by the distributor along with reasons thereof.