

**MASTER CIRCULAR  
MUTUAL FUNDS/COLLECTIVE INVESTMENT SCHEMES/ INVESTMENT  
ADVISORY SERVICES**



**Specialized Companies Division**

**Disclaimer:**

This Master Circular is a compilation/collection of all the existing/applicable Circulars and Directions issued by the Commission in relation to Specialized Companies Division of Securities and Exchange Commission of Pakistan from time to time for regulation of Collective Investment Schemes/Mutual Funds/Investment Advisory Services. This document includes all circulars issued from January 06, 2009 up to June 30, 2021 which are already in force unless otherwise revised or repealed by the Commission.

In case of any inconsistency between the Master circular and the applicable circular, the contents of the relevant circular shall prevail.



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

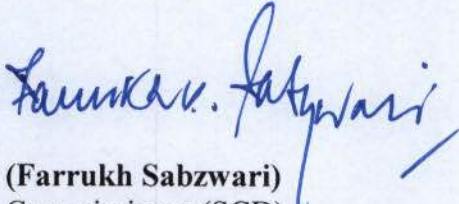
No. SCD/CIRCULAR/ 130/2021

November 03, 2021

CIRCULAR NO 30 OF 2021  
MASTER CIRCULAR

**Subject: Master Circular for Mutual Funds/Collective Investment Schemes/Investment Advisory Services**

In exercise of the powers conferred under section 282B (3) of the Companies Ordinance, 1984, the Commission in order to facilitate and create an enabling environment for the Asset Management Companies (AMCs)/Investment Advisor (IAs) and to ensure compliance of statutory / regulatory requirements pertaining to Collective Investment Schemes/Investment Advisory Services, issues this Master Circular containing consolidated circulars issued up to June 30, 2021 on the subject matter.

  
(Farrukh Sabzwari)  
Commissioner (SCD)

## **INDEX**

<b>Chapter No.</b>	<b>Subject</b>	<b>Page No.</b>
1	Digitization	04
2	Advertisements	19
3	Categorization of Collective Investment Schemes and Investment Avenues	31
4	Disclosure Requirements	44
5	Constant Proportion Portfolio Insurance (CPPI) Based Schemes	48
6	Exchange Traded Funds (ETFs)	50
7	Performance Benchmarks for Collective Investment Schemes	62
8	Selling and Marketing of Collective Investment Schemes, Sales Load and Expenses	64
9	Valuation and Provisioning	69
10	Mandatory Certifications for Professionals of NBFCs and Distribution of Units of CIS	79
11	Outsourcing Arrangements	83
12	Risk Management and Compliance	88
13	Merger of Open-End Schemes	103
14	Procedure for Unit Holders Meeting	106
15	Closed End Schemes	112
16	Separately Managed Accounts	117
17	Miscellaneous	121
18	Anti-Money Laundering	128

## **CHAPTER 1** **DIGITIZATION**

### **1.1 Requirements for Digital Account Opening by Asset Management Companies (AMCs)<sup>1</sup>**

1.1.1 Following is the minimum criteria for opening of digital accounts for Pakistani Individual Customers by AMCs and Pension Fund Managers registered under VPS Rule 2005<sup>2</sup>:

1.	Eligible Customers	Pakistani Individual Customers having: (a) an active Account at any Bank/ active E-Wallet Mobile Account. and (b) an active mobile number in his/ her own name
2.	Minimum customer information/ personal profile/ documents required by AMCs	<p>The customer shall access the online portal (website, mobile App or any third-party application) and provide the following minimum information for the purpose of registration:</p> <ul style="list-style-type: none"><li>(a) Customer's name</li><li>(b) Father/ Spouse Name</li><li>(c) Date of Birth</li><li>(d) CNIC/ Identification Number with scanned copy along with date of issuance and expiry</li><li>(e) Existing residential and mailing address</li><li>(f) Mobile Number registered in his/ her name</li></ul> <p>Provided that the AMCs may in special circumstances use where the Pakistani Individual Customer does not have mobile number in his/ her own name, the mobile number of close family member or the mobile number provided to Pakistani Individual Customers by his/ her employer, or the international mobile number of Pakistan Individual Customer having CNIC/ NICOP and an active Account at any Bank/ active E-Wallet Mobile Account subject to the following:</p> <ul style="list-style-type: none"><li>i. In case where mobile number of close family member is provided, a duly signed written authorization, on prescribed format, from both the Pakistani Individual Customers and the person whose mobile number is being provided.</li></ul>

<sup>1</sup> SECP Circular No. 35 of 2020 dated December 30, 2020

<sup>2</sup> Added by SECP Circular No. 3 of 2021 dated February 11, 2021

		<p>ii. In case where mobile number provided by employer is used, Pakistani Individual Customers shall provide the bill of service provider in accordance with the procedures and a letter from employer stating that the said mobile number is provided by employer to its employee.</p> <p>iii. In case where international mobile number is used, Pakistani Individual Customers shall provide the bill of service provider in accordance with the procedures.</p> <p>Explanation: "For the purpose of this Circular, the term "close family member" shall mean and include spouse, dependent parents and dependent children only.</p> <p>(g) Email ID</p> <p>(h) Mother's middle name</p> <p>(i) Bank/ E-Wallet Name and Bank Account IBAN Number/ E- Wallet Mobile Account Number</p> <p>(j) Digital/ online signature card</p> <p>(k) Details of nominee</p> <p>(l) Source of fund/ income</p> <p>(m) Dividend mandate</p> <p>(n) Operating Instruction, if any</p> <p>(o) Statement of account request</p> <p>(p) Digital/ online declaration regarding profession and sources of fund/ income along with uploading of valid document(s) as proof thereof</p> <p>(q) Digital/ online undertaking declaring that funds being invested are his/ her own funds and that the funds beneficially owned by Other persons will not be used and uploading of declaration/ undertaking as a proof thereof</p> <p>(r) Digital/ online consent for account opening and using information/ documents provided digitally/ online for necessary due diligence and verification functions.</p> <p>(s) Digital/ online acceptance of Terms &amp; Conditions Of the account.</p>
--	--	---

		<p>(t) Any other documents required under AML Act, 2010 and Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2020 (AML/CFT Regulations) (customer specific).</p> <p>After submission of the required information and documents, a message shall pop up for the customer on the online portal that his/her request is in process and he/ she will receive a One Time Password (OTP) once the basic information is verified.</p>
3.	Verification by AMCs	<p>AMCs will carry out required due diligence including but not limited to:</p> <p>(a) Verification of the CNIC/National Identity Card for Overseas Pakistanis (NICOP)/Pakistan origin card (POC) of customer through NADRA VERISYS.</p> <p>(b) The CNIC and mobile number pairing (whether it is registered in the name of the customer) through Pakistan Mobile Network Database ("PMD").</p> <p>Provided further that in all the circumstances mentioned in proviso of clause 2 (vi) above, AMCs shall perform Digital Verification to conduct online face to face interaction on real time basis through any virtual meeting application (WhatsApp, Skype, etc.) for authentication of the customer and original identification document.</p> <p>(c) Screening of the prospective customer against applicable sanctions regimes (UNSC, NACTA, etc.).</p> <p>(d) IBAN/ E-Wallet Mobile Account Number verification through 1-link title fetch service or IBAN/ E-Wallet Mobile Account Number and CNIC Pairing or Digital Verification to conduct online face to face interaction on real time basis through any virtual meeting application (WhatsApp, Skype, etc.) for authentication of the customer and original identification document.</p> <p>Provided that for such Pakistani Individual Customers who do not have mobile number is their own name or provide international mobile number, IBAN/ E-Wallet Mobile Account Number verification through 1-link title fetch service or IBAN/ E-Wallet Mobile Account Number and CNIC Pairing AND</p>

		<p>Digital Verification to conduct online face to face interaction on real time basis shall be mandatory.</p> <p>(e) Verification of contact details through One Time Password, email or Call back.</p> <p>In case the verification is successful, an OTP shall be generated and immediately sent on the designated mobile number and/or email address of the customer, as the case may be, valid for a limited period of time.</p> <p>(f) AMCs shall ensure before opening the account that all documents required for screening and risk rating are available and it can conduct screening and risk rating.</p> <p>(g) The customer will not be allowed to proceed in case the information cannot be successfully verified by AMCs.</p>
4.	Account Opening and Activation	The AMC will proceed with opening of account after the customer has successfully accessed the portal using the OTP. Account may be opened after due diligence checks and satisfactory completion of the requirements. The opening of customer account shall be subject to compliance with all other applicable legal and regulatory requirements.
5.	Additional Measures by AMCs	<p>(a) AMCs shall develop SOPs for:</p> <ul style="list-style-type: none"> <li>i Information and documents to be collected through website/ mobile App.</li> <li>ii Turnaround time (TAT) for decision to open or decline account is 3 working days from the time of upload of all information/ documents. In case of any discrepancy in documents or where additional documents are required, AMC would revert back to customer within the 3 working days.</li> </ul> <p>(b) AMCs shall not open digital/ online accounts in joint names.</p> <p>(c) AMCs may record the real time online face to face interaction call with the customer while carrying out KYC process for opening of account.</p> <p>(d) AMCs to ensure data/ privacy protection, safety and security of information/ documents through reliable IT infrastructure.</p> <p>(e) AMCs should ensure to deploy necessary technical infrastructure and systems while establishing business</p>

		<p>relationship through e-KYC to comply with AML/CFT regime of the country.</p> <p>(f) After opening of account, as part of ongoing monitoring and customer due diligence, AMCs may seek additional information from customers based on their ongoing internal risk assessment and compliance framework.</p> <p>(g) AMCs may carry out periodical re-profiling of the customers in accordance with AML/CFT policy.</p> <p>(h) AMCs shall deploy adequate controls to ensure that customer is not a robot (e.g. CAPTCHA Codes).</p> <p>(i) AMCs shall ensure customer care service through call center.</p> <p>(j) To eliminate the risks of impersonation of the customer or identity theft, the AMC should take appropriate security measures.</p>
6.	Types of CIS offered by AMCs	All types of mutual funds may be offered to the customers subject to minimum investment limits as per the Constitutive Document of the fund and compliance with disclosure, disclaimer, risk profiling, risk categorization and other regulatory requirements.

## 1.2 Guidelines For mutual fund Digital Distribution Platform<sup>3</sup>

1.2.1 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.

1.2.2 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

<sup>3</sup> SECP Circular No. 14 of 2021 dated May 28, 2021



functions, Digital Distributors shall ensure adherence with the ethical selling guidelines issued by MUFAP as amended from time to time.

- 1.2.3 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.

#### **1.2.4 Principles**

##### **1.2.4.1 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 regard, 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:
  - (i) includes a robust testing program of the algorithmic code and the post implementation monitoring of its performance.
  - (ii) addresses adherence to the regulatory obligations concerning automated financial advisory.

##### **1.2.4.2 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 NAV or any other relevant information to the investors enabling investors to make an informed decision by providing link of the relevant AMC's 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 AMC). 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.

#### **1.2.4.3 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:

##### **(a) System Reliability**

- i. Digital Distributor shall ensure that its platform and all modifications therein are tested before deployment and regularly reviewed to ensure reliability.
- ii. 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
- iii. Digital distributor shall ensure 24/7 availability and access to the platform.

##### **(b) Contingencies**

- i. 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:

- a suitable backup facility or alternative arrangements for order execution in the event of an emergency;
  - arrangements to ensure business records, client and transaction databases, servers and supporting documentation are backed up in an off-line medium. Offsite storage is generally expected to be subject to proper security measures; and
  - a plan for efficient dealing with investor and regulatory enquiries from SECP.
- ii. Digital Distributor shall ensure that the contingency plan to deal with potential emergencies and disruptions is periodically tested and is viable and adequate.
- iii. Digital Distributor, in the event of a material delay or failure of the platform, shall in a timely manner:
- ensure that the material delay or failure is rectified;
  - inform investors about the causes or possible causes of the material delay or failure and how investor orders will be handled; and
  - 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.

#### **1.2.4.4 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).

#### **1.2.4.5 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.

#### **1.2.4.6 Record Retention**

- (a) Digital Distributor shall maintain proper records relating to the platform, including but not limited to:
  - i. 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.
  - ii. 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.

- iii. 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.

(b) The Commission may:

- i. 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;
- ii. require the distributor to provide any other information, it requires; and
- iii. 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.

### **1.3 General Requirements**

#### **1.3.1 Conduct Requirements**

- (a) Digital distributors must comply with all applicable laws and regulations.
- (b) 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.
- (c) 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).
- (d) Use of gifts in promoting a specific CIS/ VPS must be prohibited.

#### **1.3.2 List of Online Providers**

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

#### **1.3.3 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:

- (a) 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.
- (b) conflicts of interests shall be taken into account for research reports. and
- (c) exercise due skill, care and diligence in expressing any opinion.

### **1.3.4 Systems Security and Integrity**

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
  - i. digital distributor shall obtain international certification w.r.t. information security and business continuity;
  - ii. digital distributor shall get Periodic Vulnerability Assessment and Penetration Testing (VAPT) of its system through third party assessment;
  - iii. 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
  - iv. 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.

### **1.4 Suitability Requirement**

- 1.4.1 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.

- 1.4.2 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.
- 1.4.3 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. AMCs 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.
- 1.4.4 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.
- 1.4.5 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.
- 1.4.6 A digital distributor offering robo-advisory services:
- (a) 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;
  - (b) 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;
  - (c) 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.

- (d) 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
- (e) shall provide suitable advice to ensure that the investment advice is suitable and in the best interests of the clients.

## **1.5 Procedures for Issuance, Redemption, Switching, Transfer and Exercise of Cooling off Right**

### **1.5.1 Submission of Application Forms and Confirmations**

- (a) It shall be mandatory for the investors to submit the following confirmations prior to submitting an electronic application form to the digital distribution platform:
  - i. That the investor has read the electronic offering document and fully understands its contents.
  - ii. That the investor has read and accepted the terms & conditions as set out by digital distribution platform.
  - iii. 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.
- (b) 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.
- (c) 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.
- (d) 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.
- (e) 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 cutoff timings of the fund and units will be issued after realization of subscription money.

### **1.5.2 Opening of Online Investment Account**

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



- (a) 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;
- (b) Procedures to ensure that the “know your client” rule is complied with;
- (c) Reliable authentication mechanism to ensure clients’ identity; and
- (d) Compliance with applicable AML/CFT regulatory framework should be ensured.

### **1.5.3 Redemption and Conversion of CIS/ VPS Units**

- (a) 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;
- (b) 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
- (c) 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.

### **1.5.4 Cooling-off Right**

- (a) Same cooling-off rights shall be granted to investors investing in CIS/ VPS through digital distribution platform or through traditional modes.
- (b) 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.
- (c) 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.
- (d) 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.

## **1.6 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

- i. A system shall be developed whereby the investors can lodge their complaints through the following multiple channels.
- ii. Call Centre – Investor shall be able to call at a 24/7 toll-free number of the platform during business hours.
- iii. Email – Investor shall also be able to lodge complaint through email.
- iv. Platform – Investor shall also be able to log his/ her complaint through a complaint form available at the digital distribution platform.
- v. Every Complainant shall be given a unique Complaint Number for future tracking. and
- vi. 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 2**

### **ADVERTISEMENTS**

#### **Requirements for AMCs to Advertise Open End Collective Investment Schemes<sup>4</sup>**

##### **2.1 Scope**

For the purpose of this circular, an advertisement is any material (“advertisement”) published or designed to be published by an AMC on behalf of a CIS, which is broadly distributed and the AMC has no control over the audience or recipient of such advertisement. Any material, document or communication with a purpose to either sell units of a CIS, to convey performance of a CIS under its management, or to influence the opinion or behavior of recipients of such communication regarding particular CIS shall fall within the scope of this circular.

For the purpose of this circular, all forms of advertisements including, but not limited to, communications, sales literature, magazines, journals, posters, notices, signs or billboards, circulars, newsletters (including Fund Manager Reports - FMRs), brochures, fact sheets, or pamphlets, sound broadcasting, film or television commercials, standees, web advertisements (covering online advertisements, social media activities (such as Facebook, Twitter and Videos/Tutorials on You Tube, etc.) and Video FMRs) and sales promotion, howsoever released, are included as marketing material or advertisement by an AMC for a CIS.

The principles specified in this circular shall also apply to T.V. interviews, (including videos on You Tube), emails, public speeches, presentations in seminars and workshops, or any other forum used by the AMC, so long as it markets or conveys the performance of a CIS.

##### **2.2 General Principles**

- 2.2.1 An AMC shall be responsible for the contents of an advertisement and for its proper publication / distribution. Under no circumstances shall an AMC disassociate itself from liabilities in terms of genuineness and accuracy of the contents of its advertisements.
- 2.2.2 An AMC shall ensure that the advertisement or marketing material is based on the principles of good faith, fair dealing and does not in any way mislead or deceive an existing or prospective investor.
- 2.2.3 An AMC shall ensure that the advertisement published/disseminated presents a clear, fair and a realistic picture of the CIS with adequate risk disclosures, including standard risk disclosure statement.
- 2.2.4 An AMC shall ensure that the advertisement does not contain any information or statement which is inconsistent with the Constitutive Documents of a CIS.

---

<sup>4</sup> SECP Circular No. 16 of 2014 dated July 3, 2014

- 2.2.5 An AMC shall be responsible to assess and remain cognizant of the impact of any advertisement whether taken in entirety as well as in context.
- 2.2.6 An AMC shall ensure that an advertisement does not focus solely on the potential of a CIS to offer return without balancing reference to the risks involved. In particular, an advertisement shall not give or be perceived to give the impression that an investor could profit without being exposed to corresponding risk.
- 2.2.7 An AMC shall ensure that the advertisement does not use definitive or promising language in its representation of the outcome of investing in the CIS and it does not contain words or phrases that may give impression to the investors that they cannot lose money, unless the CIS has a capital guarantee/ protection feature in place. An AMC shall not market a CIS as a bank deposit although it may compare performance of the CIS versus the performance benchmark specified in the Constitutive Documents of the CIS.
- 2.2.8 An AMC shall ensure that the returns, ratings, and other information presented in the advertisements are up to date.
- 2.2.9 An AMC shall ensure that an advertisement does not seek or may be perceived to directly or indirectly defame other AMCs, the capital market, products of the capital markets, its participants or asset classes. It shall also not use language or artwork that would be considered by a person of ordinary prudence to be in poor taste.
- 2.2.10 An AMC shall ensure that the advertisement seeking investment in a CIS, avoids language or illustrations that imply urgency. It shall not use words or context which may be deemed as pressurizing the investor into investing within a certain time frame or by a certain time, except where the CIS is being offered for a limited time period or in case of limited life CIS.
- 2.2.11 An AMC shall ensure that the advertisement is not framed to exploit the lack of experience or knowledge of the investors and use simple language commensurate with the level of understanding of the investors. Extensive use of technical or legal terminology or complex language and the inclusion of excessive details which may detract the investors shall be avoided.
- 2.2.12 An AMC shall ensure that the advertisement does not contain phrases such as “best performing” or “first” unless attributable to an independent source and the document and/or source of information concerned is readily made available to investors upon request. The terms “low risk” or “minimal risk”, “high return” should only be used relative to an alternative form of investment.

### **2.3 Performance Presentation**

- 2.3.1 An AMC shall ensure that the performance data is based only on appreciation/depreciation in NAV per unit and the dividend payouts to the unit holders. No other figures shall be used to depict performance of a CIS.

Note: The performance of a CIS is defined as the total return of one unit over a specified period. Total return shall be calculated using any methodology approved by the Commission, including MUFAP's prescribed Total Return formula, Global Investment Performance

Standards (GIPS) issued by the CFA Institute or any other methodology approved by the Commission. Formula for calculating Total Return shall be used consistently by an AMC.

- 2.3.2 An AMC shall at minimum give the performance of a CIS vis-a-vis its benchmark specified in the Offering Document for the following periods:

	<b>Fund's Return</b>	<b>Benchmark Return</b>	<b>Stability Rating (for MM/FI Funds)</b>
Money Market Schemes - Minimum one-month return (annualized)			
Income and Aggressive Income Schemes- Trailing one-year return (for CIS having investment track record of less than one year but over six months, annualized return shall be provided) (in case return represent one-time receipts e.g. provisioning or reversal of provisioning, it shall be adequately disclosed)			
All other CIS Categories- Trailing one-year return (for CIS having investment track record of less than one year but over six months, absolute return shall be provided) (in case return represent one-time receipts e.g. provisioning or reversal of provisioning, it shall be adequately disclosed)			

- 2.3.3 An AMC shall ensure that the performance data of a CIS may be presented only if it has an investment track record of not less than six months. This is only applicable for new funds launched during the year and will be used only for the first year of inception. This clause shall not be applicable for FMR of new funds, however in such case the actual/absolute performance data of the CIS shall be presented except for money market schemes and income schemes.

For equity scheme, the calculation of return used in the advertisement shall be based on a minimum period of twelve (12) calendar months on rolling basis. This means that last twelve

months performance will only be valid for the succeeding month. The AMCs shall ensure that outdated advertisements shall be removed from its websites and social media platforms<sup>5</sup>.

2.3.4 An AMC may also publish performance data of a CIS vis-a-vis its benchmark for the following observation periods. However, these shall be mandatory for publishing performance of a CIS in the Monthly Fund Manager Report or product brochures or marketing material relating to the CIS to present performance and shall include a statement that performance data does not include the cost incurred directly by an investor in the form of sales loads etc.:

2.3.4.1 Last three financial years data- each year separately (annualized only for money market, income and aggressive income schemes and their equivalent sharia compliant CIS where performance evaluation period is less than one year, whereas absolute for others).

2.3.4.2 Last five financial years data- each year separately (annualized only for money market, income and aggressive income schemes and their equivalent sharia compliant CIS where performance evaluation period is less than one year, whereas absolute for others). and

2.3.4.3 Since inception for each financial year (annualized only for money market, income and aggressive income schemes their equivalent sharia compliant CIS for where performance evaluation period is less than one year whereas absolute for others). It is clarified that “Since inception for each financial year” shall be a single figure showing average annual return (geometric mean) including return of each financial year since inception.

e.g. Mutual Fund XYZ records the following returns:

Year	Return
2000	10%
2001	15%
2002	12%
2003	8%

$$\text{AAR} = (\text{Return1} \times \text{Return2} \times \text{Return3} \times \text{Return4})^{1/4} - 1$$
$$\text{AAR} = 10.95\%<sup>6</sup>$$

2.3.5 An AMC shall ensure that the advertisement containing performance information of a CIS gives a balanced presentation (e.g., a CIS advertisement should not focus on periods during which the CIS produced its best returns and exclude equally relevant periods in which the CIS did not perform as well), and should be from start of the financial year, launch of the CIS, or its quarterly, half-yearly or annual period.

2.3.6 An AMC shall ensure that performance information of CIS in an advertisement is up to date and not more than 3 months old (except award or rankings, fund stability rating/ capital protection rating which should be the most recent). In all circumstances, information shall be updated if most recent information is significantly different and may impact investment decision of existing and potential investors.

---

<sup>5</sup> Added by SECP Circular N0. 16 of 2021 dated June 10, 2021

<sup>6</sup> SECP Letter No. SCD/AMCW/90/2014 dated September 10, 2014

- 2.3.7 An AMC shall ensure that any performance information of a CIS is actual rather than based on forecast/ simulation or its likely expected performance. An AMC may, however illustrate the concept of simple compounding for awareness of the general public.
- 2.3.8 An AMC shall adequately disclose any circumstances that may have contributed to any unusual performance of a CIS such as those that are not likely to be repeated in the future.
- 2.3.9 An AMC shall ensure that the performance information, including charts, graphs and tables, should use either the first or last business day of a month or the first or last dealing day of the CIS in a month as the reference date (such as start of financial year, since inception). The reference date shall in no case be arbitrary. Furthermore, the basis for computation of performance shall be clearly stated (i.e. NAV to NAV with or without dividends reinvested). It is clarified that reference date for performance information can be last day of month provided that NAV of a CIS is calculated for that particular day<sup>7</sup>.
- 2.3.10 An AMC shall ensure that all performance information, including awards and rankings, should be referenced to the sources and dated. Rankings and award winnings may be quoted from any published external source.
- 2.3.11 An AMC shall furnish in a timely manner any information relating to the performance of its CIS claimed through advertisement or marketing material upon request by an investor or prospective investor.
- 2.3.12 An AMC shall ensure that any advertisement pertaining to an AMC discloses its latest Management Quality Rating as per requirements of the NBFC Rules, 2003. Likewise, advertisement pertaining to a CIS shall specify its latest Performance/ Fund Stability rating.
- 2.3.13 An AMC shall ensure that an advertisement pertaining to a CIS mentions the category of the CIS (e.g. Income, Equity, Money Market, etc.). In case a CIS does not fully comply with the investment criteria of the assigned category or investment requirements of its constitutive documents owing to any reasons whether within or beyond the control of the AMC, requisite disclosure is made by the AMC in advertisement in accordance with Circular 16 of 2010 issued by the Commission.
- 2.3.14 An AMC shall ensure that the comparison of performance figures is fair, accurate and relevant. If graphs are shown, they should be clearly presented without distortion (for example the bar charts should start from zero but not any ad-hoc figure). In selecting a format for the presentation of performance results, AMC shall give consideration not only to the completeness and accuracy of the data, but also to the clarity and meaningfulness of the overall presentation. Furthermore, it shall give careful consideration to the visual impact of the data presented instead of just depicting trends.
- 2.3.15 In case the benchmark of CIS is changed because there exists a benchmark which more closely reflects the investment focus of the CIS than the old benchmark, the return of the benchmark should be calculated using the old benchmark for the past period and the new benchmark from

---

<sup>7</sup> SECP Letter No. SCD/AMCW/90/2014 dated September 10, 2014

the date the new benchmark is introduced. An AMC shall ensure that the so calculated benchmark return is compared with the CIS return whenever such information is presented.

Following additional requirements have been prescribed for performance presentation in all forms of advertisements including newspaper and social media advertisements related to equity schemes of an Open-end CIS for compliance by AMCs<sup>8</sup>.

- 2.3.16 The font size of performance figure(s) shall not exceed twice the font size of heading in the advertisement, where heading is the text with the largest font size excluding the performance figure.
- 2.3.17 The font size of benchmark returns shall not be less than 30% of the performance figure(s). Explanation: If font size of performance figure(s) is 60, font size for benchmark returns shall be equal to or more than 18.
- 2.3.18 The information about fund risk profile should be given right under the benchmark figure and its font size shall not be less than 30% of the font size of the performance figure e.g. “Risk Profile: High Risk of Principal Erosion”.

(Illustration attached as **Annexure-I** for guidance purpose only)

## **2.4 Comparisons with Peer Group Averages**

An AMC shall ensure that in case of comparison of a CIS with peer group averages, such comparison shall be made with CIS

- (a) belonging to the same category. and
- (b) for money market/ fixed income funds having the same stability rating issued by a credit rating agency.

Furthermore, it shall use the peer group indices being maintained at MUFAP and shall ensure that the time periods of the comparative data must also be similar.

## **2.5 Changes to a CIS**

- 2.5.1 An AMC shall ensure that if there has been a change in the operations of a CIS, such as a merger, a restructuring, a change of management companies, or a change in its investment objectives or policies or comparative index, where such change has a significant impact on the CIS’s performance (or its presentation), any presentation of performance information prior to such change should be accompanied by a prominent explanation in the disclosure that is appropriate in the context of the advertisement to ensure such presentation is not misleading.
- 2.5.2 An AMC shall ensure that if a CIS is restructured (e.g. change in category or authorized investments), it is permissible to continue using past performance data only if there is no significant change in the investment policy and investment character of the CIS.
- 2.5.3 An AMC shall ensure that in the case of a merger of two or more CIS, past performance of CIS till the event of merger should be shown separately and from the date of merger performance of surviving CIS shall be continued. This is permissible only if the surviving CIS

---

<sup>8</sup> Added by SECP Circular No 16 of 2021 dated June 10, 2021



is still managed in same category as before the merger, and the past performance to be taken over is also representative of the new merged CIS.

## **2.6 Disclaimers and Notes to Investors**

- 2.6.1 An AMC shall ensure that the advertisements/ Offering documents shall contain the disclaimers as specified in **Annexure-II**.
- 2.6.2 An AMC shall ensure that if a CIS is described as having been approved by the Commission it must explicitly state that in giving this approval, the Commission does not take any responsibility for the financial soundness of the CIS nor for the accuracy of any statement made or any opinion expressed in the Offering Document or other advertisements.
- 2.6.3 An AMC shall ensure that the disclaimers and footnotes are well positioned and, where applicable, properly referenced in the advertisement. Further, the disclaimer shall be legible and can easily be read with reasonable ease by anyone scanning the advertisement. Due consideration shall also be given to the effect of back ground colors on legibility of the text in print advertisements.
- 2.6.4 An AMC shall ensure that the advertisements of a CIS with special features (e.g. short selling or use of futures etc.) includes risk disclosures/ disclaimers appropriate to the degree of risk inherent in the CIS. The Commission may require additional disclosures/ disclaimers to be included in the advertisements of specific types of CISs, where appropriate.
- 2.6.5 An AMC shall ensure that the footnotes given in the advertisement are clear and concise, with no distortion or unclear shortcuts, so as to afford investors adequate information to complete the references to the footnotes. There shall be clear bifurcation between disclaimer and footnotes.

## **2.7 Rules Applicable to Radio, Television, Cinema, Hoardings and Bill Boards**

- 2.7.1 The following provisions are applicable to such advertisements where, the recipients of information have no control over the time for delivery of information (e.g. radio, television, cinema broadcasts, etc.):
  - 2.7.1.1 An AMC shall ensure that for audio-visual advertisements disclaimers referred to in Annexure I shall be displayed in a clearly legible font size covering at least 70% of the total screen space. The remaining 20% space can be used for the name of the CIS or logo or name of the AMC, etc. The display and voice-over reiteration of the disclaimer statement shall be for a period of ten percent of run-time of at least five seconds and be audibly and clearly read out in a voice-over at the end of each broadcast.
  - 2.7.1.2 An AMC shall ensure that for audio advertisements, disclaimers referred to in Annexure I shall be read in a manner easily understandable to the listener over a period of not less than five seconds.
- 2.7.2 The following is applicable to the advertisements through hoardings and billboards:
  - 2.7.2.1 An AMC shall ensure that for hoarding and billboard disclaimer referred to in Annexure I shall be displayed in a clearly legible font size covering at least 10% of the total display space.

However, for performance presentation in all forms of advertisements including newspaper and social media advertisements related to equity schemes of an Open-end CIS for compliance by AMCs, the above-mentioned disclaimers should be in bullet points and the font size of the disclaimer should not be less than 20% of the font size of the performance figure as specified in para 2.2.16. The hoarding and billboard shall cover at least 20% of the total display space of the advertisement.

## **2.8 Incidental Features**

2.8.1 An AMC shall ensure that the incidental features in all advertisements are presented in accordance with the following principles:

2.8.1.1 Undue prominence should not be given to any incidental feature (e.g. free insurance coverage, etc.) in any advertisement. An advertisement shall stress on information pertaining to the CIS instead of incidental feature.

2.8.1.2 The offer should be featured subject to relevant disclosure, for example, value of the item offered, the length of the offer period, conditions attached, whether certain categories of investors are excluded, etc.. and

2.8.1.3 There should be no hidden costs imposed on investors in the name of incidental features. In case of an explicitly stated cost to be borne by unit holders, it must be disclosed that the incidental feature is optional for unit holders.

2.8.1.4 An AMC shall not advertise gifts or lucky draws to solicit investment in the CIS.

## **2.9 Tax Credit and Other Benefits**

2.9.1 An AMC shall ensure that the advertisement relating to tax credit on investment in CIS shall use the format specified in **Annexure-III**.

2.9.2 An AMC shall ensure that the advertisement does not contain simulated/ expected returns and calculation of total return on the basis of tax credit on investment in CIS.

2.9.3 An AMC shall ensure that the advertisement contain appropriate disclaimer pertaining to applicability of all taxes and tax laws and other conditions regarding the tax credit in the footnotes.

**2.10** An AMC shall submit to the Commission published/ broadcasted version of advertisement within thirty-six hours of the publication date.

All AMCs are required to ensure meticulous compliance in letter and spirit. Any violation/circumvention of this circular shall be dealt with in accordance with the relevant laws, rules and regulations for AMCs.

Note: All AMCs shall exclude the amount invested by fund of fund schemes in underlying funds managed by same AMC while publishing the amount of assets under its management in advertisements.<sup>9</sup>

---

<sup>9</sup> SECP Direction No.12 of 2017 dated April 27, 2017

## Annexure-I

AMC Name & Logo

**Grow your savings with Pakistan's  
Best performing\*\* Equity Fund  
(in last 1 year)**

**SAMPLE  
ADVERTISEMENT**

**Fund Name**

**24.63%\***

Benchmark 13.71%

Risk Profile: High Risk of Principal Erosion



### Management Rating & Contact Information

\*\*Among all AMC(s) Stock Funds. Source mufap.com.pk

3 years return: xx.xx%

5 years return: xx.xx%

\*Funds 1 year trailing return till 30th April 2021

Since inception return: xx.xx%

#### Disclaimer:

- All investments in mutual Funds and pension funds are subject to market risks.
- Past performance is not necessarily indicative of future returns.
- Please read the offering documents to understand the policies and risks involved.

## **Annexure-II**

### **Disclaimer for TV Commercial (Existing Fund and New Fund)**

The disclaimer for the TV Commercial displayed at the end of advertisement is stated below (depending on the language of advertisement).

All investments in mutual fund are subject to market risks. Past performance is not necessarily indicative of the future results. Please read the Offering Document to understand the investment policies and the risks involved.

میوچل فنڈز میں سرمایہ کاری کے نتائج مارکیٹ کے حالات پر منحصر ہیں۔ یہ ضروری نہیں کہ مستقبل کے نتائج گزشتہ کارکردگی کے مطابق ہوں۔ سرمایہ کاری کی پالیسیوں اور رسک کو بخوبی سمجھنے کے لیے آفرنگ دستاویزات کا مطالعہ کیجیے

The following sentences will be used as voice-over when the disclaimer is being displayed.

میوچل فنڈز میں سرمایہ کاری کے نتائج مارکیٹ کے حالات پر منحصر ہیں  
سرمایہ کاری کی پالیسیوں اور رسک کو بخوبی سمجھنے کے لیے آفرنگ دستاویزات کا مطالعہ کیجیے

All investments in mutual fund are subject to market risks. Please read the Offering Document to understand the investment policies and the risks involved

### **Disclaimer for Radio Commercial (Existing and New Fund)**

All investments in mutual fund are subject to market risks. Please read the Offering Document to understand the investment policies and the risks involved.

میوچل فنڈز میں سرمایہ کاری کے نتائج مارکیٹ کے حالات پر منحصر ہیں  
سرمایہ کاری کی پالیسیوں اور رسک کو بخوبی سمجھنے کے لیے آفرنگ دستاویزات کا مطالعہ کیجیے

### **Disclaimer for Hoardings/Bill Boards (Existing and New Fund)**

All investments in mutual fund are subject to market risks. Please read the Offering Document to understand the investment policies and the risks involved

میوچل فنڈز میں سرمایہ کاری کے نتائج مارکیٹ کے حالات پر منحصر ہیں  
سرمایہ کاری کی پالیسیوں اور رسک کو بخوبی سمجھنے کے لیے آفرنگ دستاویزات کا مطالعہ کیجیے

### **Disclaimer for Print Advertisement (Existing Fund)**

All investments in mutual fund are subject to market risks. Past performance is not necessarily indicative of the future results. Please read the Offering Document to understand the investment policies and the risks involved.

میوچل فنڈز میں سرمایہ کاری کے نتائج مارکیٹ کے حالات پر منحصر ہیں۔ یہ ضروری نہیں کہ مستقبل کے نتائج گزشتہ کارکردگی کے مطابق ہوں۔ سرمایہ کاری کی پالیسیوں اور رسک کو بخوبی سمجھنے کے لیے آفرنگ دستاویزات کا مطالعہ کیجیے

### **Disclaimer for Print Advertisement (New Fund & IPO Ad)**

All investments in mutual fund are subject to market risks. The investors are advised in their own interest to carefully read the contents of Offering Document in particular the Investment Policies mentioned in clause\_\_\_\_\_ Risk Factors mentioned in clause \_\_\_\_\_ and Warnings in clause\_\_\_\_\_ before making any investment decision.

### **Additional Disclaimer for Capital Protected Funds and Capital Guaranteed Funds:**

Capital-Protected funds shall disclose the following statements in addition to the standard disclaimer:

- (a) A statement on the specific terms of capital protection (e.g. capital protection only applies to unit holders who hold their investments until maturity date)

Capital-Guaranteed funds should disclose the following statements in addition to the standard disclaimer:

- (a) Name and credit rating of the guarantor.
- (b) A statement on the material terms of the guarantee (e.g. guarantee only applies to unit holders who hold their investments until maturity date)
- (c) The guarantee is subject to the credit risk of the guarantor and it does not give any assurance to the future solvency of the guarantor.

### **Disclaimers for website, you tube and social media**

On the websites, the AMCs generally upload the approved print advertisements so the disclaimer shall be same as that of disclaimer of print advertisement. YouTube advertisement is similar to TVC so the disclaimer shall be same as that of disclaimer of TVC. In case of social media, the minimum text of disclaimer shall be as that of billboard /hoarding disclaimer.

### **Additional disclaimer for non-compliant open-end schemes:**

If a CIS is not compliant with either the minimum investment criteria specified for its category or with the investment requirements of its constitutive documents, following disclosures are mandatory:

“The XYZ scheme holds certain non-compliant investments. Before making any investment decision, investors should review the latest monthly Fund Manager Report and Financial Statements.”

### **Additional disclosures regarding contingent WWF liability:**

In case the AMC gives data regarding NAV or return of CIS in the advertisement, following additional disclosure shall be given:

### **Where requisite provision is not being maintained or partially maintained against the WWF liability –**

“The Fund/Scheme has not made provisions amounting to Rs. .... against Workers’ Welfare Fund liability, if the same were made the NAV per unit/return of the Scheme would be lower by Rs. .... / ..... %age. For details investors are advised to read the Note..... of the latest Financial Statements of the Scheme.”

### **Annexure-III**

The schedule mentioned below illustrates the tax credit which can be obtained at various income levels given their respective tax slabs as per section 62 of Income Tax Ordinance, 2001.

<b>Taxable Income</b>	<b>Permissible Investment for Tax Credit (PKR)</b>	<b>Tax Amount (PKR)</b>	<b>Tax Credit (PKR)</b>
<b>(Rupees)</b>		<b>According to Income Tax Ordinance</b>	

## **CHAPTER 3**

### **CATEGORIZATION OF COLLECTIVE INVESTMENT SCHEMES& INVESTMENT AVENUES**

#### **Categorization of Open-end Collective Investment Schemes<sup>10</sup>**

Categorization of the open-end Collective Investment Schemes (“CIS”) on the basis of investment parameters including eligible asset classes with pre-specified risk profile is imperative to enable the investors to make informed decision and to bring uniformity in the mutual funds industry for comparing performance of various open-end CIS.

The AMCs shall ensure that all existing and upcoming open-end CIS shall be categorized in accordance with the criteria given in this chapter. Each open-end CIS shall be assigned only one category and AMCs shall ensure that the investment parameters associated with such type of schemes are strictly followed. A category once assigned to open-end CIS shall not be changed.

The pricing mechanism for all open-end CIS with the exception of money market schemes shall be based on forward pricing mechanism.

### **3. Criteria for Categorization of Open-End Collective Investment Schemes**

Open-end schemes shall be categorized as per the following criteria:

#### **3.1 Equity Scheme**

- 3.1.1 At least 70% of its net assets shall remain invested in listed equity securities during the year based on quarterly average investment calculated on daily basis.
- 3.1.2 The remaining net assets shall be invested in cash and/ or near cash instruments which include cash in bank accounts (excluding TDRs), and treasury bills not exceeding 90 days’ maturity, and
- 3.1.3 It shall not take exposure to Margin Trading System (MTS)<sup>11</sup>.

#### **3.2 Balanced Scheme**

- 3.2.1 Investment avenues - listed equity securities, government securities, cash in bank accounts, money market placements, deposits, certificate of deposits (COD), certificate of musharakas (COM), TDRs, commercial papers, reverse repo, TFCs/ Sukuks, MTS<sup>12</sup>, spread transactions, preference shares, exchange traded commodity future contracts<sup>13</sup>.
- 3.2.2 Net assets ranging between 30% to 70% shall remain invested in listed equity securities at all times. The scheme may sell in the cash-settled futures market against a position held in the

---

<sup>10</sup> SECP Circular No.7 of 2009 dated March 06, 2009

<sup>11</sup> SECP Circular No. 04 of 2011 dated March 10, 2011

<sup>12</sup> SECP Circular No. 4 of 2011 dated March 10, 2011

<sup>13</sup> SECP Circular No. 9 of 2013 dated June 11, 2013

underlying security, however, the minimum 30% non-hedged exposure in listed equity securities shall be maintained at all times.

- 3.2.3 The remaining net assets shall be invested in the authorized investments as specified in the offering document of the scheme.
- 3.2.4 Rating of any debt security in the portfolio shall not be lower than A- (A Minus).
- 3.2.5 Rating of any NBFC and Modaraba with which funds are placed shall not be lower than AA (Double A).
- 3.2.6 Rating of any bank and DFI with which funds are placed should not be lower than AA (-) (Double A Minus).
- 3.2.7 Weighted average time to maturity of non-equity assets shall not exceed 2 years.
- 3.2.8 Exposure to MTS<sup>14</sup> and spreads shall not exceed 25% of the net assets.
- 3.2.9 At least 10% of the net assets shall be invested at all times in cash and near cash instruments which include cash in bank accounts (excluding TDRs), treasury bills not exceeding 90 days' maturity<sup>15</sup>.
- 3.2.10 A Balanced Scheme may invest up to 60% of its net assets in exchange traded commodity future contracts<sup>16</sup>. and
- 3.2.11 Investment parameters and miscellaneous requirements (except clauses 1, 2 and 15) stipulated under Circular No. 32 of 2012 shall be applicable on the schemes to the extent of exposure in commodities future contracts<sup>17</sup>.

### **3.3 Asset Allocation Scheme**

- 3.3.1 Asset Allocation Scheme may invest its net assets in any type of securities at any time with a provision to diversify its net assets across multiple types of securities and investment styles as specified in their offering documents.
- 3.3.2 An Asset Allocation Scheme shall be eligible to invest in exchange traded commodity future contracts<sup>18</sup>.
- 3.3.3 Every such scheme shall disclose in its offering document the following:
  - (a) Authorized investments. and
  - (b) Rating of securities that it would invest in.

---

<sup>14</sup> SECP Circular No. 4 of 2011 dated March 10, 2011

<sup>15</sup> SECP Circular No. 9 of 2013 dated June 11, 2013

<sup>16</sup> SECP Circular No. 9 of 2013 dated June 11, 2013

<sup>17</sup> SECP Circular No. 9 of 2013 dated June 11, 2013

<sup>18</sup> SECP Circular No. 9 of 2013 dated June 11, 2013



- 3.3.4 The investment within each asset class shall be governed by the criteria applicable to schemes of that asset class.
- 3.3.5 Investment parameters and miscellaneous requirements (except clauses 1, 2 and 15) stipulated under Circular No. 32 of 2012 shall be applicable on the schemes to the extent of exposure in commodities future contracts.<sup>19</sup>
- 3.3.6 At least 10% of the net assets shall be invested at all times in cash and near cash instruments which include cash in bank accounts (excluding TDRs), treasury bills not exceeding 90 days' maturity.<sup>20</sup>

### **3.4 Fund of Funds Scheme**

- 3.4.1 Such scheme shall invest its net assets in other schemes only.
- 3.4.2 Every such scheme shall mention its type with respect to asset class, e.g. equity fund of funds, income fund of funds etc., in its offering document.
- 3.4.3 Every such scheme will be invested either in units of other collective investment schemes as per its investment policy or in cash and/ or near cash instruments which include cash in bank accounts (excluding TDRs), and treasury bills not exceeding 90 days' maturity.
- 3.4.4 Investment of fund of funds scheme in money market schemes shall be treated as equivalent to cash and near cash instrument.<sup>21</sup>
- 3.4.5 Every such scheme shall ensure that it does not invest in the seed capital of any other collective investment scheme.
- 3.4.6 A fund of fund scheme may also be established with the objective of investing in closed-end schemes.
- 3.4.7 A Constant Proportion Portfolio Insurance (CPPI) based principal preservation fund/plan in a fund of funds category may invest its money market component in saving accounts and term deposits with banks rated AA- and above.
- 3.4.8 An AMC may charge management fee up to 1% of average annual net assets of money market component invested in saving accounts and term deposits in case of a CPPI based principal preservation fund/plan in a fund of funds category.
- 3.4.9 The per party exposure limits given in Regulation 55(5) of the NBFC Regulations, 2008 shall not be applicable on money market component invested in saving accounts and term deposits in case of a CPPI based principal preservation fund/plan in a fund of funds category.

---

<sup>19</sup> SECP Circular No. 9 of 2013 dated June 11, 2013

<sup>20</sup> SECP Circular No. 9 of 2013 dated June 11, 2013

<sup>21</sup> SECP Direction No. 07 of 2017 dated March 03, 2017

3.4.10 An open-ended fund of funds scheme may invest the subscription money in a money market scheme managed by the same AMC during the Pre-Initial Offering and Initial Offering Period.<sup>22</sup>

3.4.11 A capital/principal protected/preservation scheme in a Fund of Funds structure shall only invest in money market scheme and/or Sovereign Income Scheme for its capital/principal preservation/protection component.

### **3.5 Shariah Compliant (Islamic) Scheme**

3.5.1 Such scheme shall invest its assets only in Shariah compliant assets

3.5.2 In all other categories except money market Shariah Compliant Schemes, rating of any bank or DFI with which funds are placed should not be lower than A- (A minus) and rating of debt instruments in the portfolio should not be lower than A- (A minus). It is clarified that the minimum rating for placement of funds with Banks/DFIs and exposure against debt securities by a Shariah compliant capital/principal protected and/or principal preservation scheme shall be the same as for a conventional capital protected scheme i.e. not lower than AA-(Double A minus)<sup>23</sup>. and

3.5.3 Every such scheme shall be categorized with respect to equity, fund of funds, income etc. in its constitutive documents and follow the conditions applicable to that category.

### **3.6 Capital Protected Scheme**

3.6.1 Such scheme shall make investments in such a manner that the original amount of Investment is protected whilst having the potential yield positive returns, with such conditions as to tenure of investment and any other conditions that are disclosed in the offering document. the offering document of such scheme shall clearly demonstrate how this capital protection is achieved. and

3.6.2 In the event that such scheme is protecting the investment capital by placing a term deposit with a bank or DFI, the rating of such bank or DFI at the time of offering the scheme shall not be lower than AA- (Double A minus).

### **3.7 Index Scheme/ Index Tracker Scheme**

3.7.1 Such schemes shall strive to mimic the stated index and disclose the likely tracking error in the Offering Document.

3.7.2 An Index scheme shall strive to remain fully invested in accordance with the stated index, however, under no circumstances shall it be invested less than 85% of its net assets in securities covered in the index or its subset during the year based on monthly average investment calculated on daily basis, The uninvested amount shall be kept in cash and/ or near cash instruments where near cash instruments include cash in bank account (excluding TDRs), and treasury bills not exceeding 90 days maturity.

---

<sup>22</sup> SECP Circular No. 3 of 2018 dated March 02, 2018

<sup>23</sup> SECP letter no. SCD/AMCW/873/2014 dated February 10, 2014

- 3.7.3 Index schemes and index tracker schemes may select an index (or a subset thereof) established by a recognized independent third party.

### **3.8 Money Market Scheme**

- 3.8.1 Investment avenues - government securities, cash and near cash instruments which include cash in bank accounts (excluding TDRs), treasury bills, money market placements, deposits, certificate of deposits (COD), certificate of musharakas (COM), TDRs, commercial papers, reverse repo.

Provided that the Money Market Funds may take maximum exposure of twenty (20) per cent of the net assets of the CIS in commercial papers of corporate entities subject to compliance with the exposure limits as prescribed in Non-Banking Finance Companies and Notified Entities Regulations, 2008.<sup>24</sup>

- 3.8.2 No direct/indirect exposure to equities, i.e. no exposure in equities, MTS<sup>25</sup>, spread transactions, etc.
- 3.8.3 Rating of any NBFC and Modaraba with which funds are placed shall not be lower than AAA (Triple A)
- 3.8.4 Rating of any bank and DFI with which funds are placed should not be lower than AA (Double A)
- 3.8.5 Rating of any security in the portfolio shall not be lower than AA (Double A)
- 3.8.6 Time to maturity of any asset shall not exceed six months
- 3.8.7 Weighted average time to maturity of the net assets shall not exceed 90 days, and
- 3.8.8 AMCs shall at all times maintain at least 10% of net assets of Money Market Funds in cash and treasury bills that can be readily converted into cash<sup>26</sup>.

### **3.9 Income Scheme**

- 3.9.1 Investment avenues - government securities, cash in bank account, money market placements, deposits, certificate of deposits (COD), certificate of musharakas (COM), TDRs, commercial paper, reverse repo, TFC/ Sukuk, MTS<sup>27</sup>, spread transactions.
- 3.9.2 Exposure to MTS<sup>28</sup> and Spreads shall not exceed 40% of the net assets.
- 3.9.3 At least 25% of the net assets shall be invested in cash and near cash instruments which include cash in bank account (excluding TDRs), treasury bills not exceeding 90 days' maturity. However, income schemes which invest at least 70% of their net assets in government securities in accordance with the investment policy stipulated in their constitutive documents,

---

<sup>24</sup> Added by SECP Circular No. 31 of 2020 dated 22 October, 2020

<sup>25</sup> SECP Circular No. 04 of 2011 dated March 10, 2011

<sup>26</sup> SECP Direction No. 01 of 2016 dated January 26, 2016

<sup>27</sup> SECP Circular No. 04 of 2011 dated March 10, 2011

<sup>28</sup> SECP Circular No. 04 of 2011 dated March 10, 2011

shall maintain at least 10% of the net assets in cash and near cash instruments which include cash in bank account (excluding TDR) and treasury bills not exceeding 90 days maturity<sup>29</sup>. In case of government securities fund at least 70% of its net assets shall remain invested in Government Securities on monthly average basis calculated at the end of each month. In the event of any breach in the same due to increase or decrease in net assets due to issuance or redemption, the breach shall be regularized within one month of the breach<sup>30</sup>.

- 3.9.4 Not more than 15% of the net assets shall be invested in non-traded securities including reverse repos, bank deposits, certificates of investments (COI), certificate of musharakas (COM) and anything over 6 months' maturity which is not a marketable security. The exposure limit of 15% is on cumulative basis as percentage of the overall net assets and not for each type of non-traded instrument<sup>31</sup>.
- 3.9.5 Rating of any security in the portfolio shall not be lower than investment grade (BBB minus or above)<sup>32</sup>.
- 3.9.6 Rating of any NBFC and Modaraba with which funds are placed shall not be lower than investment grade.
- 3.9.7 Rating of any bank and DFI with which funds are placed should not be lower than investment grade.
- 3.9.8 Weighted average time to maturity of the net assets shall not exceed 4 years and this condition shall not apply to securities issued by the Federal Government. The cap on the WATM of an Income Fund of 4 years would not include securities issued by the Federal Government. However, for the purpose of disclosure (FMR or other public marketing materials), actual WATM of the portfolio should be calculated to disclose the factual portfolio position<sup>33</sup>. and
- 3.9.9 No restriction regarding:
  - (a) Time to maturity of any single asset in the portfolio.
  - (b) Duration of a single security in the portfolio.

### **3.10 Aggressive Fixed Income Scheme**

- 3.10.1 Investment avenues - government securities, cash in bank account, money market placements, deposits, certificate of deposits (COD), certificate of musharakas (COM), TDRs, commercial paper, reverse repo. TFC/Sukuk, MTS<sup>34</sup>, Spread transactions.
- 3.10.2 At least 10% of the net assets shall be invested in cash and/or near cash instruments which include cash in bank account (excluding TDRs), and treasury bills not exceeding 90 days' maturity.

---

<sup>29</sup>SECP Circular No. 3 of 2015 dated January 26, 2015

<sup>30</sup>SECP Email dated September 19, 2017

<sup>31</sup> SECP Email dated April 10, 2012

<sup>32</sup>SECP letter No. SCD/AMCW/CDC/81/2012 dated March 15, 2012

<sup>33</sup> SECP Email dated September 10, 2010

<sup>34</sup>SECP Circular No. 04 of 2011 dated March 10, 2011

3.10.3 Both rated and unrated securities shall be eligible for investment, below investment grade rated securities shall also be eligible for investment.

3.10.4 Weighted average time to maturity of the net assets shall not exceed 5 years and this condition shall not apply to securities issued by the Federal Government.

3.10.5 No restriction regarding time to maturity of any single security in the portfolio.

**3.11 Commodity Schemes:**<sup>35</sup>

3.11.1 At least 70% of the net assets of the commodity scheme shall remain invested in commodities or commodity futures contracts during the year based on quarterly average investment calculated on daily basis.

3.11.2 Remaining net assets of the commodity scheme shall be invested in cash and near cash instruments which include cash in bank accounts (excluding TDR), and treasury bills not exceeding 90 days maturity. However, at least 10% of the net assets of the commodity scheme shall remain invested in cash and near cash instruments at all times.

3.11.3 For the purpose of exposure in commodity or commodity futures contracts, a commodity scheme shall only be eligible to invest in exchange-traded futures contracts that have underlying assets as commodities (such as gold, silver, crude oil, etc.).

3.11.4 A commodity scheme shall only invest in cash settled futures contracts, except for gold for which a commodity scheme, in addition to the cash settled futures, may also invest in deliverable futures contract.

3.11.5 Maximum exposure of the scheme shall not at any time exceed 90% of its net assets to ensure no gearing / leverage by the scheme. 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 AMC along with the Trustee of the commodity scheme shall ensure timely payment of settlement amount and margin calls on behalf of the commodity scheme within the time period stipulated by the exchange. It is clarified that opening single/multiple account(s) for liquidity and earmarked purposes is a pure operational aspect of fund management. The AMC and the Trustee may opt for single or multiple account(s) as per their mutual agreement<sup>36</sup>.

3.11.6 For the purpose of the earmarked cash / assets, an AMC may invest the amount in the following manner:

- i. In cash and near cash instruments which include cash in bank accounts (excluding TDR), treasury bills and money market schemes.
- ii. Rating of any bank with which funds are placed shall not be lower than AA (Double A).
- 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 commodity futures contract

---

<sup>35</sup>SECP Circular No.32 of 2012 dated Oct 18, 2012

<sup>36</sup> SECP Email dated March 22, 2013

for which the cash / assets has been earmarked. This clause requires an AMC to match the remaining maturity of the earmarked instrument/asset with the residual maturity of the futures contract for which the instrument/asset has been earmarked.<sup>37</sup>

- 3.11.7 AMC shall not sell commodity futures contract on behalf of the scheme without pre- existing interest of the commodity scheme.
- 3.11.8 AMC shall ensure that before launch of any commodity scheme, it possesses sufficient systems and employs capable human resources, which includes qualified fund managers with requisite skill set to understand and deal in commodities or commodity futures contracts.
- 3.11.9 AMC shall follow forward pricing mechanism for the commodity scheme and shall mark to market on a daily basis the exposure of the commodity scheme in commodities or commodity futures contracts.
- 3.11.10 AMC shall specify in the offering document of the commodity scheme reasonable cut-off time for calculation and announcement of NAV and for accepting application for issuance and redemption of units of the scheme, after appropriately taking into account the closing time of the exchange(s) on which such commodity futures contracts are traded.
- 3.11.11 AMC shall ensure that for any overseas investment by a commodity scheme the exchange rate declared by the State Bank of Pakistan is used for the purpose of marking the investments / assets to market.
- 3.11.12 AMC shall not enter on behalf of a commodity scheme (or Shariah compliant commodity scheme), into transactions with any broker that exceed twenty percent of the commission payable by the scheme in any one accounting year.
- 3.11.13 Any incidental charges incurred in respect of the commodities may be charged to the commodity scheme with the approval of the Commission.
- 3.11.14 An Islamic commodity scheme shall invest only in Shariah compliant assets.
- 3.11.15 The commodity scheme shall be liable to pay to the Commission a monitoring fee as prescribed in the Regulations for money market schemes.
- 3.11.16 AMC shall ensure that in addition to the requirements stipulated under the NBFC Rules, 2003 and the Regulations, the requirements specified above are complied with in letter and spirit for any commodity scheme launched by it.
- 3.11.17 The Investment parameters and miscellaneous requirements (except clauses 3.11.1, 2 and 15) stipulated above shall be applicable on the Balanced scheme and Asset Allocation Scheme to the extent of exposure in commodities future contracts<sup>38</sup>.

---

<sup>37</sup> SECP Email dated March 19, 2013

<sup>38</sup>SECP Circular No.9 of 2013 dated June 11, 2013

### **3.12 Criteria for Investing in Equity Securities by Collective Investment Schemes (CIS)<sup>39</sup>**

An AMC shall ensure that the investment of the CIS, which are authorized to invest in listed equity securities, in equity securities of the following companies shall not exceed 10% of their overall equity portfolio of CIS on monthly average basis:

- 3.12.1 Securities which are not eligible for Central Depository System.
- 3.12.2 Company is not traded on regular trading counter of the Pakistan Stock Exchange.
- 3.12.3 The minimum free float of the company is less than 15% or 50,000,000 shares whichever is less.
- 3.12.4 The securities of the company are traded less than 50% of the total trading days during the last six months or from the date of listing as the case may be.
- 3.12.5 Company's paid up capital is fully eroded owing to accumulated losses as per the annual audited accounts or half yearly limited scoped reviewed accounts whichever is latest.
- 3.12.6 There are major non-compliance issues i.e. holding of annual general meeting, finalization of annual audited accounts, appointment of board of directors and non-compliance with any specific direction (s) of the Commission except those companies that have obtained relaxation or extension to comply with such regulatory requirements from the Commission.

For the purpose of this clause, the word "specific direction" shall mean an explicit direction issued to a particular company in a certain matter.

- 3.12.7 Auditor's report is qualified with respect to company's ability as going concern or contains adverse opinion or disclaimer of opinion. or
- 3.12.8 Winding up proceedings have been initiated against the company.

### **3.13 Investments in Exchange Traded Equity Future Contracts<sup>40</sup>**

- 3.13.1 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.
- 3.13.2 A CIS may take exposure through equity future contracts for meeting the investment objective of the CIS or for the purpose of hedging.
- 3.13.3 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.
- 3.13.4 A CIS cannot blank sale in deliverable equity future contract.

---

<sup>39</sup> SECP Circular No. 13 of 2017 dated April 28, 2017

<sup>40</sup>SECP Circular No.7 of 2020 dated March 27, 2020

- 3.13.5 A CIS may sell deliverable equity futures contracts against its existing ready market open purchase position in the same security 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.
- 3.13.6 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.
- 3.13.7 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.
- 3.13.8 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.
- 3.13.9 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.
- 3.13.10 An AMC must ensure compliance with exposure limits prescribed under Regulation 55 of the NBFC Regulations.
- 3.13.11 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.
- 3.13.12 An AMC shall make appropriate disclosures in the offering document of CIS which at least covers the following: -
- (a) 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.
  - (b) Extent and manner of participation of the schemes in equity future contracts.
  - (c) Risk factors of exposure in equity futures contracts explained by suitable numerical examples.
  - (d) A statement as to whether future contracts are used for the purpose of hedging or meeting the investment objective of the scheme.
  - (e) A description of risk management and compliance procedures and controls adopted to ensure appropriate risk management.
- 3.13.13 Exposure in futures contracts shall be marked-to-market on a daily basis as per requirement of the Pakistan Stock Exchange.



### **3.14 Investments in units of Real Estate Investment Trust<sup>41</sup>.**

3.14.1 Equity and equity-oriented schemes (i.e. equity, balanced and asset allocation schemes and index schemes) shall be eligible to invest in units of unlisted or privately placed Real Estate Investment Trusts Scheme which shall be listed on a securities exchange within a period of three years from its financial close as provided in Regulations 5(3) of REIT Regulations, 2015 subject to the following: -<sup>42</sup>

(a) The CIS shall take exposure in units of unlisted or privately placed REIT Schemes up to a maximum of 5% of net assets of such REIT Schemes whichever is lower, provided that the entity/sector/group exposure limits as specified in the regulation are complied with.

(b) An AMC before investing shall ensure that.

i. Investment in units of unlisted or privately placed REIT scheme are correctly valued and priced for the purpose of calculation of NAV. and

ii. Mechanism is available for the exit of the CIS from such REIT scheme.

### **3.15 Securities Lending by AMCs on behalf of Collective Investment Schemes<sup>43</sup>**

3.15.1 An AMC on behalf of Collective Investment Schemes namely equity, asset allocation, balanced and index schemes may lend equity securities maximum up to 10% of net assets of such Collective Investment Scheme out of its equity portfolio.

3.15.2 An AMC on behalf of Collective Investment Scheme shall lend securities only through platform provided by an authorized intermediary for the purpose of securities lending and borrowing as per the Securities (Leveraged Markets and Pledging) Rules, 2011.

3.15.3 An AMC shall make necessary amendments in offering document of respective CIS and given necessary notice to the unit holders as per the requirements 44(7) of NBFC Regulations 2008.

3.15.4 The above three requirements are issued without prejudice to the requirements prescribed under Securities (Leveraged Markets and Pledging) Rules, 2011.

### **3.16 Investments in units of Exchange Traded Funds by Equity Oriented Collective Investment Schemes<sup>44</sup>**

3.16.1 Equity oriented CIS namely equity, asset allocation, balanced and index schemes may take exposure in units of Exchange Traded Funds maximum up to 10% of net assets of such CIS.

3.16.2 An AMC shall charge single management fee in case of investment in the units of ETF if both the equity-oriented CIS and ETF are being managed by the same AMC.

---

<sup>41</sup>SECP Circular No. 19 of 2015 dated May 15, 2015

<sup>42</sup> Added by SECP Circular No. 19 of 2021 dated 23 June 2021

<sup>43</sup>SECP Circular No. 18 of 2019 dated December 20, 2019

<sup>44</sup>SECP Circular No. 04 of 2020 dated March 03, 2020

### **3.17 Other Requirements/Clarifications:**

- 3.17.1 The term ‘cash and near cash instrument’ include only cash in bank account (excluding TDRs or other term deposits) and treasury bills not exceeding 90 days maturity<sup>45</sup> and Government of Pakistan (GoP) Ijarah Sukuks not exceeding 90 days remaining maturity shall be counted for cash and near cash instrument requirements.<sup>46</sup> Money Market Placements cannot be treated as ‘cash and near cash instrument’.<sup>47</sup>
- 3.17.2 For the purpose of Circular No. 07 of 2009, the rating of “BBB minus or above” is considered as investment grade rating<sup>48</sup>.
- 3.17.3 An AMC on behalf of each eligible Collective Investment Scheme (CIS) shall not place funds (including TDR, PLS Saving Deposit, COD, COM, COI, money market placements and other clean placements of funds) of more than 25% of net assets of that CIS with all microfinance banks, non-bank finance companies and Modarabas.

Provided that above condition shall not be applicable on sector specific fund and aggressive income fund.<sup>49</sup>

- 3.17.4 An AMC can open and maintain bank accounts on behalf of CIS in banks that do not meet the rating stipulated in Circular No. 07 of 2009 up to a maximum of 0.25% of net assets of the CIS to facilitate investors for swift issuance and redemption of units. The AMC shall not place Term Deposits on any material amounts of money in these lower rated banks to earn higher returns. These accounts shall only be utilized to provide operational benefit to the investor.<sup>50</sup> The trustee may allow transfer of funds in excess of 0.25% of net assets in a bank which does not meet the rating requirement after ensuring that these funds are transferred only to meet the redemption requests received and actual balance in that bank account complies with the requirement of 0.25% of net assets at day end. The AMCs should deposit and get the cheque cleared from the banks which comply with the rating requirement instead of the bank which do not meet the rating requirement if due to such deposit the limit of 0.25% of net assets is going to be breached as this would be considered violation. All such instances should be immediately reported by the trustee to SECP in terms of NBFC Regulations<sup>51</sup>.
- 3.17.5 AMCs shall periodically conduct appropriate stress testing on the portfolios of Money Market and Income Funds under their management based on certain hypothetical and/or historical events, such as rise in short-term interest rate, an increase in redemptions, a downgrade or series of downgrades in rating of portfolio securities, or credit event etc.
- 3.17.6 AMCs shall conduct independent assessment of credit worthiness of the counter party while taking credit exposure against any party or in any security other than Government Securities on behalf of CIS as external ratings are only one element to take into consideration when assessing the credit quality of an instrument/entity.

---

<sup>45</sup> SECP Letter No. NBFC-II/CDC dated October 22, 2010

<sup>46</sup> SECP Circular No. 10 of 2016 March 16, 2016

<sup>47</sup> SECP Email dated November 23, 2012

<sup>48</sup> SECP Letter No. SCD/AMCW/CDC/81/2012 dated March 15, 2012

<sup>49</sup> SECP Direction No. 37 of 2016 dated November 23, 2016

<sup>50</sup> SECP letter No. SCD/AMCW/MUFAP/451/2011 dated November 11, 2011

<sup>51</sup> SECP Letter No. SCD/AMCW/MCBFSL-Clarification/180/2014 dated December 9, 2014

- 3.17.7 AMCs shall develop procedures to identify investors whose redemption request may pose risk to the funds under their management. AMCs must ensure that appropriate efforts are undertaken to identify patterns in unit holders' cash needs, sophistication, risk aversion, as well as to assess the concentration of the investor base<sup>52</sup>.
- 3.18 The Securities and Exchange Commission of Pakistan hereby allows subsidiary of ISE Towers REIT Management Company Limited to apply for registration to act as trustee of Open-End Scheme or Close End Scheme subject to the following terms and conditions: - <sup>53</sup>
- (a) The company shall be a public limited company with principal line of business/primary object clause of providing trustee services to CIS, REIT Schemes and Private Funds under the NBFC Regulations, Private Funds Regulations, 2015 and the Real Estate Investment Trust Regulations, 2015.
  - (b) The company shall initially have equity of Rs. 100.00 million, to be increased thereafter to Rs. 200.00 million in five years and during this five-year period the company shall at all times ensure that its equity is at least 0.10% of the net assets maintained under its trusteeship. The SECP may direct the company to fulfil additional capital requirements and the company shall be bound to comply with such direction.
  - (c) The sponsors of the company shall make best efforts for inclusion of licensed commercial bank/DFI as major shareholder.
  - (d) The Board of Directors and major shareholders of the company shall be subject to prior SECP approval and shall comply with the Fit and Proper Criteria as per Schedule IX of the NBFC Regulations 2008. The SECP shall be empowered to remove any or all of the directors on the board of the company in the interest of the investors or capital market.
  - (e) The appointment of Chief Executive Officer of the company shall be subject to SECP approval.
  - (f) The company shall appoint at least 1/3<sup>rd</sup> independent directors on its board with at least one female independent director.
  - (g) Any change in ten percent or more shareholding of the company shall be subject to prior SECP approval.
  - (h) The company shall obtain sufficient insurance coverage from an insurance company having a minimum A- rating, against the wrongful act, fraud & forgeries and negligence of the company or any of its employees.
  - (i) The external auditor of the company shall be from category A of the panel of auditors maintained by State Bank of Pakistan.
  - (j) The company shall not indulge in any activity other than the activities currently permitted to existing trustee companies and shall not undertake any other activity without prior approval of the SECP.

---

<sup>52</sup> SECP Direction No. 1 of 2016 dated January 26, 2016

<sup>53</sup> SECP Circular No. 3 of 2020 dated February 20, 2020

## **CHAPTER 4**

### **DISCLOSURE REQUIREMENTS**

#### **Requirements for Assessing Suitability and Risk Categorization of Collective Investment Schemes (CIS)<sup>54</sup>**

**4.1** AMCs shall classify CIS and investment plans<sup>55</sup> as per the following risk profiles:

<b>Category of CIS/Plans</b>	<b>Risk Profile</b>	<b>Risk of Principal Erosion</b>
Money Market Funds with no exposure in corporate commercial papers	Very Low	Principal at very low risk
Money Market Funds with investment in corporate commercial papers, Capital Protected Funds (non-equity), Income Funds with deposits/placement in AA or above rated banks/ DFIs and investment in Government Securities or Government backed Sukuks. Weighted average duration of portfolio of securities shall not exceed six (6) months.	Low	Principal at low risk
Income funds with investment in A and above rated banks, AA rated corporate debt instruments, MTS and spread transactions. Weighted average duration of portfolio of securities shall not exceed two (2) years.	Moderate	Principal at moderate risk
CPP I Strategy Based Funds, Income Funds (where investment is made in fixed rate instruments or below A rated banks or corporate sukuks or bonds, spread transactions, Asset Allocation and Balanced Funds (with equity exposure up to 50% mandate).	Medium	Principal at medium risk
Equity Funds, Asset Allocation (with 0 - 100% Equity exposure mandate) and Balanced Funds (with 30 - 70% Equity exposure mandate), Commodity Funds, Index Tracker Funds and Sector Specific Equity Related Funds.	High	Principal at high risk

4.1.1 AMCs shall ensure that standard risk profile of CIS/plans as per above table are printed in prominently visible form on the front page of offering document, investment forms and in the fund manager report.

4.1.2 AMCs shall formulate and maintain policies and procedures with respect to their obligation to ensure suitability of CIS/plans to the investor.

4.1.3 AMCs shall develop investor risk profiling mechanism for assessment of suitability of CIS/plan to the potential investor.

<sup>54</sup> SECP Circular No.2 of 2020 dated February 06, 2020

<sup>55</sup> Replaced by SECP Circular No. 32 of 2020 dated October 22, 2020

4.1.4 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.

4.1.5 All other investments allowed in various categories under circular No. 7 of 2009 will remain same<sup>56</sup>.

#### **4.2 Disclosure requirements for the CIS holding Non-compliant investments<sup>57</sup>**

The AMCs shall make the following minimum disclosures for open-end schemes which hold non-compliant investments.

##### **4.2.1 Disclosure in the Offering Documents (risk section)**

*“There may be times when a portion of the investment portfolio of the Scheme is not compliant either with the investment policy or the minimum investment criteria of the assigned ‘Category’. This non-compliance may be due to various reasons including, adverse market conditions, liquidity constraints or investment —Specific issues. Investors are advised to study the latest Fund Manager Report specially portfolio composition and Financial Statements of the Scheme to determine what percentage of the assets of the Scheme, if any, is not in compliance with the minimum investment criteria of the assigned Category. The latest monthly Fund Manager Report as per the format prescribed by Mutual Funds Association of Pakistan (MUFAP) is available on the website of the Asset Management Company (AMC) and can be obtained by calling /writing to the AMC.”*

##### **4.2.2 Disclosure in Advertisement**

The following disclosure shall be made separately from the standard risk disclosure prescribed for Schemes: -

*“The XYZ Scheme holds certain non-compliant investments. Before making any investment decision, investors should review the latest monthly Fund Manager Report and financial statements of the Scheme particularly the details of non-compliant investments and Risk Factors.”*

##### **4.2.3 Disclosure in the Fund Manager Report, Quarterly, Half-Yearly & Annual Financial Statements**

###### **Details of non-compliant investments with the investment criteria of assigned category**

Name of the non-compliant investment	Type of investment	Value of investment before provision	Provision held if any	Value of investment after provision	% of Net Assets	% of Gross Assets
--------------------------------------	--------------------	--------------------------------------	-----------------------	-------------------------------------	-----------------	-------------------

<sup>56</sup> SECP circular No. 32 of 2020 dated October 22, 2020

<sup>57</sup> SECP Circular No. 16 of 2010 dated July 07, 2010

#### 4.2.3.1 The AMCs shall:

- (a) ensure that a copy of latest monthly Fund Manager Report (“FMR”) of the scheme containing the above stated minimum disclosures is available at its website and a copy of said FMR shall be submitted to the Commission simultaneously.
  - (b) disclose the credit quality/asset quality of portfolio of the Scheme in monthly FMR if the portfolio of the scheme contains any debt securities or other credit exposure.
  - (c) The Trustee of scheme shall not hold redemption(s) if usage of such cash for redemptions results in the cash balance falling below the minimum requirement. However, the AMC shall ensure that other assets are sold in due course of time (if possible without impacting investors’ interests) or cash is generated through new subscriptions to comply with the minimum cash and near cash requirements. For the purpose of this circular the minimum cash and near cash requirements shall be calculated on the basis of the average for each calendar month.
- 4.2.4 For the purpose of peer group analysis or return comparison of the schemes within the same category, the basis should be underlying portfolio and not merely the assigned category.
- 4.2.5 Trustees of the schemes shall monitor compliance with the requirements of this circular on an ongoing basis and shall report to the Commission on a timely basis, in case there is any non-compliance or deviation.

### 4.3 Calculation and disclosure of Total Expense Ratio<sup>58</sup>

The AMCs shall comply with the following requirements in respect of calculation and disclosure of Total Expense Ratio (“TER”) of the Collective Investment Scheme (“CIS”) managed by them:

- 4.3.1 The AMCs shall calculate the TER in respect of each CIS at the end of each calendar month during the financial year of the CIS in the following manner:

**Total Expenses of the CIS ÷ Average Net Asset Value of the CIS**

where:

- (a) Total Expenses means the sum of daily expenses of the CIS from July 01 till end of the calculating month.
  - (b) Average Net Asset Value means the sum of daily net assets from July 01 till end of each calculating month divided by total number of days from July 01 till end of that month.
- 4.3.2 The AMCs shall adjust the NAV of the CIS on the basis of TER at the end of each quarter during the financial year for the amount of expenses in excess of TER limit prescribed in regulation 60 (5) of the Regulations for that CIS by booking liability against AMC. Moreover, the reimbursement (if any) by an AMC to CIS shall be made on the basis of annual TER

---

<sup>58</sup>SECP Direction No. 23 of 2016 dated July 20, 2016(not available)

calculated at the end of each financial year and NAV shall be adjusted accordingly. The Trustee of the CIS shall ensure compliance in this regard.

- 4.3.3 The AMC shall disclose TER in respect of each CIS managed by it in the monthly Fund Managers Report ("FMR") and also in periodic financial statements of the CIS. For the purpose of disclosure in FMR and financial statements, the TER shall be calculated inclusive of the costs incurred in relation to any government levy on CIS such as sales tax, Worker's Welfare Fund or SECP fee etc. and the same shall be mentioned that this include XX% representing government levy, Worker's Welfare Fund and SECP fee.

#### **4.4 Placement of Constitutive Documents of Collective Investment Schemes by AMC on Website<sup>59</sup>**

The AMCs shall place the approved constitutive documents of all the collective investment schemes under their management on their respective websites.

In case of any amendments made in the constitutive documents through supplemental constitutive documents approved by the Commission, an AMC shall place the updated and consolidated constitutive documents (with notes referring to the supplemental constitutive document highlighting the change made in the original document/ clauses), along with the original and supplemental/restated constitutive documents separately on its website. The updated constitutive documents shall be placed immediately or after completion of the duration of the notice period, as the case may be. Furthermore, the updated constitutive documents shall clearly specify the last date of updation i.e. "XYZ fund updated up to DD/MM/YY"

---

<sup>59</sup>SECP Circular No. 14 of 2014 dated June 05, 2014

## **CHAPTER 5**

### **CONSTANT PROPORTION PORTFOLIO INSURANCE (CPPI) BASED SCHEMES**

#### **Requirements for Constant Proportion Portfolio Insurance (CPPI) based Collective Investment Schemes<sup>60</sup>**

The AMCs shall comply with following requirements in respect of Collective Investment Schemes (CIS) under their management, based on Constant Proportion Portfolio Insurance (CPPI) methodology or any modified version of such methodology:

- 5.1** An AMC may use a maximum Multiplier of up to 5 times to arrive at exposure in risky assets including equity instruments without any cushion value percentage restrictions, subject to the condition that exposure in risky assets including equity instruments shall not exceed 50% of the net assets of the Constant Proportion Portfolio Insurance based CIS/plan.<sup>61</sup>

Further, where an AMC locks-in the profit, it shall add the profit to the Bond Floor (present value of the amount on maturity date of the CIS) and recalculate the Cushion Value accordingly.

- 5.2** The AMCs shall exercise prudence while ensuring compliance with the Circular and taking into consideration the long-term interests of the unitholders of Fund of Funds (where applicable) and those of the underlying CIS.

- 5.3** An AMC shall immediately rebalance the asset composition of the CIS in accordance with its & approved methodology disclosed in the offering documents of the CIS, at least on 5%<sup>62</sup> decline in Portfolio Value of the CIS from the previous rebalancing or on weekly basis, whichever falls earlier.

- 5.4** An AMC shall use the running yield of the underlying fixed income asset or fixed income CIS, in case of Fund of Funds, to compute the Bond Floor daily on the following basis:

- (a) For direct investment in money market instruments, it shall be the present relevant yield of the government security with a similar maturity.
- (b) For investment through money market mutual funds, the actual yield of the fund based on current portfolio.

The AMC may use a more conservative yield to determine a Bond Floor that is higher than the one derived after using a yield as specified in the above clauses.

- 5.5** The Board of Directors of the AMC shall formulate and approve liquidity management policy that enables timely reallocation of portfolio to effectively achieve investment objective of the CIS.

---

<sup>60</sup> SECP Circular No. 18 of 2015 dated May 15, 2015

<sup>61</sup> SECP Circular No. 08 of 2019 dated May 28, 2019

<sup>62</sup> SECP Circular No. 30 of 2017 dated November 24, 2017



- 5.6** An AMC shall disclose the range (minimum and maximum) of Multiplier applied for every CIS based on CPPI methodology in its monthly Fund Manager Report.
- 5.7** In case of Fund of Funds based on CPPI methodology, the AMC shall exercise fair and equitable treatment of interests of direct investors of the underlying funds (through which the Fund of Funds take exposure) versus the investors of the Fund of Funds.
- 5.8** A CPPI based CIS/plan launched under the category fund of funds shall take equity exposure only through dedicated equity funds.<sup>63</sup>

---

<sup>63</sup> SECP Circular No. 30 of 2017 dated November 24, 2017

## **CHAPTER 6**

### **EXCHANGE TRADED FUNDS (ETFs)**

#### **Minimum Requirements for Exchange Traded Funds (ETFs) to be managed by AMCs<sup>64</sup>**

In order to facilitate the launch of Exchange Traded Funds (ETF's) in Pakistan, the Securities and Exchange Commission of Pakistan ("the Commission"), in addition to the requirements as laid down in the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the "NBFC Rules") and the Non-Banking Finance Companies & Notified Entities Regulations, 2008 (the "NBFC Regulations"), has decided to revamp the framework for regulation of Index Tracking Exchange Traded Funds.

Therefore, in exercise of the powers conferred under section 282B (3) of the Companies Ordinance, 1984, read with the NBFC Regulations, 2008 the Commission hereby prescribes the following minimum requirements for Index Tracking ETFs:

The requirements for ETFs encompass the following aspects:

- i. Eligibility
- ii. Definitions
- iii. Name of Scheme, investment objectives and Acceptability of Index
- iv. Investment Restrictions
- v. Issuance and redemption of creation units
- vi. Pricing and Dealing
- vii. Authorized Participants
- viii. Market Maker
- ix. Dealing of ETF units on the stock exchange
- x. Dissemination of information
- xi. Fee and Expenses
- xii. Non-Applicability of Regulations 37(7)(h), 41(k), 54(3a), 57 and 58(1)(1) of the NBFC Regulations

#### **6.1 Eligibility**

A Non-Banking Finance Company licensed by the Commission to provide Asset Management Services, i.e. AMC is eligible to launch index tracking ETFs. An AMC shall ensure that in addition to the provisions of the NBFC Rules and the NBFC Regulations pertaining to Collective Investment Schemes that are not otherwise modified, relaxed or waived, an ETF complies with all the requirements specified hereunder.

---

<sup>64</sup> Replaced by SECP Circular No. 20 of 2021 dated 23 June, 2021

## 6.2 Definitions

- (a) **Authorized Participant (“AP”)** means an entity appointed by an AMC authorized for Creation and Redemption of ETF Creation Unit as per the terms of Authorized Participant Agreement. Following entities are eligible to act as Authorized Participant:
- i A Securities Broker, as defined in the Stock Exchange Regulations, operating in active status.
  - ii A Banking Company, as defined under the Banking Companies Ordinance, 1962.
  - iii A Development Finance Institution (DEI). and
  - iv Any other company permitted by the Commission.
- (b) **Authorized Participant Agreement (“APA”)** means an agreement entered into between the AP, Trustee and the AMC setting out the roles and responsibilities of each party and includes, among other things, the terms and procedures to be adopted by the AMC & AP for the issuance and redemption of Creation units. Minimum contents of the APA are specified in **Annexure-IV**.
- (c) **Benchmark Index** means the Index approved by the Commission, is specified in the Constitutive Documents of the ETF (the “Constitutive Documents”) and against which the performance of ETF is measured.
- (d) **Cash component** means the difference between the applicable Net Asset Value (NAV) of a creation unit and the market value of the Portfolio Deposit. The Cash component will represent accrued dividend, accrued annual charges including management fees and residual cash in the scheme.
- (e) **Creation unit** means the specified number of ETF units for issuance or redemption as determined by the AMC and disclosed in the Constitutive Documents.
- (f) **ETF** means Exchange-Traded Fund, which is a listed index-tracking open-end fund structured as a Collective Investment Scheme. The primary objective of the ETF is to mimic the return of a particular benchmark index by investing substantially all of its assets in the constituent securities of the benchmark index. ETF shall issue and redeem Creation units in-kind through AP only.
- (g) **ETF unit** is a unit of open-end scheme that tracks a benchmark index and is listed on the stock exchange and may be bought and sold like any other share on the stock exchange.
- (h) **INAV** means Intra-day Net Asset Value calculated on a current basis (with regular intervals) after incorporating the price change of underlying securities throughout a business day. INAV is indicative current basis Net Asset Value of an ETF unit that facilitates trading of ETF in the secondary market.
- (i) **In-kind Creation** means a portfolio of securities and the cash component to be delivered to the AMC, by an AP either on its own account or on behalf of its clients for creation of ETF units.

- (j) **Market Maker ("MM") means** an entity as defined in the Stock Exchange Regulations, and who is appointed by the Exchange, responsible to provide liquidity on the Exchange during trading hours as per the terms of Market Maker Agreement entered between the Exchange and the Market Maker.
- (k) **Portfolio Deposit** means a pre-defined basket of securities that represents the benchmark index together with a cash payment (if applicable) for the purposes of issuance and redemption of Creation units and will be announced by the AMC, and composition of the Portfolio Deposit may change from time to time.
- (l) **Tracking Error** means the standard deviation of the difference between daily returns of an ETF and that of the underlying Benchmark Index and NAV of the ETF for any given period.
- (m) **Tracking difference** measures the actual under- or outperformance of the fund compared to the underlying reference index. Tracking difference is defined as the total return difference between a fund and its underlying reference index over a certain period of time. Terms not defined here shall have the same meaning as assigned in the NBFC Rules, the NBFC Regulations, and Regulations of the Stock Exchanges.

### 6.3 Name of Scheme, Investment Objective and Acceptability of Index

- 6.3.1 AMC shall ensure that in addition to compliance with the minimum disclosure in the Offering Document of a Collective Investment Scheme prescribed under the Regulations, it complies with the additional disclosure requirements in the Offering Document of an ETF, as specified in **Annexure-V** to this Circular.
- 6.3.2 AMC shall ensure that name of the scheme appropriately reflects the nature of an ETF, i.e. the name of the ETF shall clearly specify the benchmark index it aims to track and 'index tracking' shall be appropriately stated in the name of the scheme.
- 6.3.3 The acceptability of a benchmark index which is to be tracked by an ETF shall be assessed on the basis of the following criteria:

Equity ETF shall.	Debt ETF shall.
(a) have a clearly defined objective.	(a) Have a clearly defined objective. be
(b) be investible.	(b) Investible be.
(c) appropriately reflect the characteristics of the relevant market or sector.	(c) Be able to fairly reflect price movements of its component securities.
(d) be able to fairly reflect price movements of its component securities, and change the composition and weightings of the component securities.	(d) appropriately reflect the characteristics of the relevant sector if any.
(e) be broadly based and be sufficiently liquid with no one component security constituting more than 20% of the total value of the ET F. However, such limit on	(e) be broadly based and be sufficiently liquid with no one component security constituting more than 25% of the total value of the ETF. However, such limit shall not apply on a debt ETF which

<p>an individual scrip shall not apply in case of well recognized indices.</p> <p>(f) be transparent, shall conveniently be accessible by investors and published in an appropriate manner. and</p> <p>(g) be based on securities listed and traded on a stock exchange in Pakistan.</p>	<p>invests in debt securities issued by Federal or Provincial Government.</p> <p>(f) rating of any security in the Debt ETF portfolio shall not be lower than investment grade.</p> <p>Provided that debt ETF categorized as money market shall not have securities in its portfolio with lower than double A (AA) rating.</p> <p>(g) be transparent, shall conveniently be accessible by investors and published in an appropriate manner.</p> <p>(h) securities in the index with a defined credit rating.</p> <p>Provided Debt ETF categorized as money market shall have securities with defined maturity only and defined credit rating.</p>
--	---

Provided that a debt ETF may be categorized as income or money market ETF.

Provided further that a hybrid ETF may have benchmark index which can be a combination of both Equity ETF and Debt ETF benchmark indexes criteria as explained above.

- 6.3.4 Where the strategy of the benchmark index to be adopted is to meet the investment objective involving investment in a particular style, asset class, economic sector, market or geographical area, the management company must ensure that an appropriate portion of the ETF is invested in accordance with that intention.
- 6.3.5 Furthermore, the Commission may require an independent review of the proposed index by the Exchange or any other third party, to assess the criteria stated above.
- 6.3.6 AMC shall ensure that the underlying index to be tracked by the ETF shall fulfill all the eligibility requirements as stated in clause 3 above.
- 6.3.7 The Commission may withdraw registration of an ETF if its index no longer complies with the requirements of above stated clause 3.
- 6.3.8 Each ETF must have one market maker appointed by the exchange on which the ETF is listed and one authorized participant. Provided both the roles can be performed by one entity.
- 6.3.9 AMC shall immediately notify the Commission, the stock exchange on which the ETF is listed and the underlying unit holders of the ETF in case of any event that may adversely affect the acceptability of the benchmark index in accordance with the above stated clause 3 and such adverse events include but are not limited to a change in the:

- (a) basis of composition or calculation of the benchmark index.
- (b) objective or characteristics of the benchmark index.
- (c) composition of the benchmark index such as, due to inclusion or deletion of any security.  
or
- (d) weightage of the benchmark index constituents such as due to corporate activities (e.g. mergers and acquisitions) or significant market movements.

## **6.4 Investment Restrictions in an ETF**

- 6.4.1 AMC shall ensure that the weightage of the component securities in the ETF are based on the entire component securities (full replication) of the benchmark index except where the ETF is unable to fully replicate the benchmark index due to market limitations, deviation of up to 15% is acceptable provided that such parameters and features are defined in detail in the Constitutive Documents. The Commission under special cases may allow partial replication of an index by an ETF subject to compliance with clause 3 above.
- 6.4.2 Subject to the conditions mentioned in clause 10 above, variation between the benchmark index and the ETF allocation of 10% is permissible in each scrip forming part of the ETF. Any variation beyond the 10% limit described above which may be caused by a movement in market prices of constituent scrips or corporate actions, may be rectified in the next rebalancing/reconstitution.
- 6.4.3 AMC shall ensure that at all times, at least 85% of the assets of the ETF remain invested in the component securities of the benchmark index being tracked by it, while the remaining assets may comprise of cash or cash equivalents.
- 6.4.4 In case of an equity ETF and hybrid ETF an AMC shall ensure that per party, per group and sector exposure limits and restrictions in relation to the equity securities held by the equity ETF and hybrid ETF are in accordance with their weightage in the benchmark index. Any non-compliance or breach of such investment limits shall be rectified within 3 business days.
- 6.4.5 In an event where the credit rating of a security falls below the investment grade or rating mandated in the index methodology, rebalancing by debt ETF/hybrid ETF shall be done within a period of 5 business days.
- 6.4.6 AMC, to ensure proper and efficient management of the ETF, shall define in the Constitutive Documents, the parameters for the level of cash and cash equivalents to be maintained by the ETF.

## **6.5 Issuance and Redemption of Creation Units**

- 6.5.1 AMC shall ensure that:
  - (a) APA sufficiently covers details of the procedures to be adopted by the AMC, AP and Trustee for issuance and redemption of Creation units and shall submit copy of the same to the Commission for its record. and

- (b) All requests for issuance and redemption of Creation units are originated or routed through the AP only.
- 6.5.2 AMC may change the Creation Unit size of an ETF only if permitted by the Constitutive Documents and shall be subject to the prior approval of the trustee and the Commission. Any change approved in the Creation Unit size shall be intimated by the AMC in writing to the stock exchange where the ETF is listed at least 3 working days prior to the effective date of such change.
- 6.5.3 AMC shall ensure that the expenses and other charges are adequately disclosed in the Constitutive Documents and an estimate of the expenses and other charges shall be reviewed regularly and revised, if necessary.
- 6.5.4 AMC shall ensure that all provisions and procedures relating to issuance and redemption of Creation units are adequately and clearly disclosed in the Constitutive Documents.
- 6.5.5 The Trustee of an ETF shall issue or redeem Creation units only upon the instructions of AMC subject to compliance with the procedures specified in the NBFC Rules, the NBFC Regulations, the APA and the Constitutive Documents.
- 6.5.6 The Trustee of an ETF shall ensure issuance of Creation units upon completion of transfer of title of the portfolio deposit and cash component in the name of the ETF.

## **6.6 Pricing and Dealing**

- 6.6.1 AMC shall issue or redeem Creation units only at the NAV calculated in accordance with the Constitutive Documents.
- 6.6.2 AMC shall ensure that the issuance and redemption of Creation units with AP are priced on the basis of NAV of the ETF. However, the unit of the ETF shall trade on the stock exchange on the basis of the market price.
- 6.6.3 AMC shall ensure that the INAV per unit and the end of day NAV per unit are calculated on the basis of a process and criteria which is consistently applied by the AMC or the third-party to whom this function is delegated to ensure that the valuations are objective and independently verifiable.
- 6.6.4 AMC shall carry out determination of the INAV per unit on a current (with regular interval) basis, within a business day as deemed necessary by the AMC and as specified in the Constitutive Documents. The AMC shall ensure that INAV is disseminated to the stock exchange on which the ETF is listed on a current basis (with regular interval) and as per the disclosures made in the Constitutive Documents.
- 6.6.5 AMC may delegate calculation of INAV to an independent third-party subsequent to ensuring that the said party possesses requisite financial, human and technological resources available to perform the delegated function satisfactorily. Notwithstanding delegation of this function to an independent party, an AMC shall be fully responsible for proper calculation and timely dissemination of INAV on the basis disclosed in the Constitutive Documents.

However, the responsibility of AMC shall not be applicable due to circumstances beyond its control such as force majeure, failure or malfunctioning of hardware/software despite the best efforts of an AMC 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.

- 6.6.6 The Trustee of an ETF shall ensure that issuance and redemption of Creation units is done on pricing basis disclosed in the offering document by the AMC and any transfer of underlying securities into and out of the ETF is also based on the valuation used in determining the ETF's NAV.

## **6.7 Authorized Participants**

- 6.7.1 AMC shall ensure that the APs have sufficient resources and capabilities to satisfactorily fulfill its role and obligations and comply with the requirements on an ongoing basis.
- 6.7.2 AMC shall ensure that the ETF has AP at all times who shall be appointed by the AMC for the purpose of In-kind issuance and In-kind redemption of Creation units with ETF under the APA.

## **6.8 Market Makers**

- 6.8.1 AMC shall ensure that the MMS have sufficient resources and capabilities to satisfactorily fulfill their roles and obligations and comply with the requirements on an ongoing basis.
- 6.8.2 AMC shall ensure that the ETF has MM who are appointed by the Exchange, responsible to provide liquidity on the Exchange during trading hours as per the terms of Market Maker Agreement entered between the Exchange and the Market Maker.

## **6.9 Dealing of ETF Units on The Stock Exchange**

- 6.9.1 AMC shall ensure that an ETF complies with the listing requirements and any other regulations of the stock exchange on which it is listed on an ongoing basis.
- 6.9.2 In the event trading in ETF units is suspended, AMC shall ensure that before resumption of trading of such ETF units, it notifies the Commission in writing of the effective date of the proposed resumption.
- 6.9.3 The trustee of an ETF shall not process or facilitate any request for issuance or redemption of Creation Units during the period of suspension of trading in ETF units on the stock exchange.
- 6.9.4 Trading in ETF units on the exchange may continue during the period of suspension of issuance and redemption of ETF units.
- 6.9.5 AMC shall ensure that in the event it requests for de-listing of an ETF, it shall immediately inform the Commission in writing stating its reasons, rationale and circumstances for such delisting.



## 6.10 Dissemination of Information

6.10.1 AMC shall ensure that information as stated below is disseminated to the public on regular and timely basis:

(a) AMC or third party on behalf of an AMC shall disclose the following information regarding ETF:

Components	Frequency			Measured
	Equity ETF	Debt ETF	Hybrid ETF	
ETF Market Price	Real Time	Last Day	Last Day or Real Time	Per unit
INAV	Current with regular interval	At least once in a business day	Current with regular interval or at least once in a business day	Per unit
Net Asset Value	Last day	Last day	Last day	Per unit
Units Outstanding	Last day	Last day	Last day	No of units
Accumulated Dividend	Last day	Last day	Last day	Per unit
Total Cash Component	Last day	Last day	Last day	Per creation unit
Benchmark Index	Real time	Last day	Last day or Real time	-

(b) AMC shall disclose in respect of an ETF the details including portfolio deposit, cash component and the number of units outstanding, on a daily basis to the Exchange on which the ETF is listed.

6.10.2 AMC may use other acceptable channels or modes of communication for dissemination of information relating to the ETF and the said modes may include:

(a) hyperlink to the website of the exchange or the AMC's own website.

(b) pages made available by information vendors to disseminate trading information of the ETF units in their ordinary course of business and which are easy accessible by retail investors/ general public.

(c) electronic medium for information dissemination as provided by the exchange from time to time. or

(d) any other channel considered acceptable by the Commission.

6.10.3 The Commission may from time to time require additional information to be disclosed on a real-time or any other basis, as it may deem necessary.

## **6.11 Fees and Expenses of ETF**

- 6.11.1 AMC may charge to the ETF only those expenses that are directly related to and necessary for managing the operations of the ETF including Index license fee, maintenance or independent verification fee of an Index by a third party.
- 6.11.2 AMC shall ensure that all expenses chargeable to the ETF are properly and clearly disclosed in the Constitutive Documents.

## **6.12 Non-Applicability of Regulation 37(7)(h), 41(k), 54(3a), 57 And 58(1)(1) Of The NBFC Regulations**

- 6.12.1 The following requirements of the NBFC Regulations shall not apply in the case of an ETF:
- (a) The requirement of brokerage limit of twenty five percent (25%) to any broker in an accounting year by fund under Regulation 37(7)(h).
  - (b) The requirement under paragraph 41(k) of the NBFC Regulations, whereby trustee shall ensure issuance of units after realization of subscription money provided that the trustee has received the underlying securities and cash component.
  - (c) The requirement of minimum fund size of Rs. 100million in terms of Regulation 54(3a).
  - (d) The requirements and procedures for open-end schemes as specified under Regulation 57, except for sub-regulation (I) of the said Regulation.
  - (e) The prohibition under Regulation 58(1)(I), from issuance of units for consideration other than cash, in case of in-kind issuance of Creation units of an ETF.
  - (f) The requirement relating to criteria for investing in equity shares as laid in Circular No. 13 of 2017.

The Commission may, from time to time, specify additional requirements or such other conditions as it may deem fit. This Circular shall supersede Circular No. 15 of 2012 dated May 08, 2012

## **Annexure-IV**

### **Minimum Contents to be Covered in Authorized Participant (AP) Agreement**

AP agrees to act as a market maker of the Fund (the ETF) and the AMC authorizes AP to create and redeem units of the fund in Creation Unit size or multiple thereof.

Both parties mutually agree to clauses relating to the following areas:

- i. Adherence to Constitutive Documents, applicable Rules, Regulations, Laws and other procedures devised by AMC from time to time.
- ii. Relationship and Role of each party to the agreement.
- iii. Procedure for Creation and Redemption of units.
- iv. Procedure for settlement of Cash Component.
- v. AP intention to act as a Market Maker (which necessitates a separate Market Making Agreement with the Exchange).
- vi. Fees (if any), and disclosure on charging of fee.
- vii. Notification to AP by AMC for changes in index weights and composition.
- viii. Indemnification from AP to AMC (to cover AMC for areas where AMC cannot regulate the AP).
- ix. Availability of Information.
  - x. Standard format of notices and procedure to be exchanged between the parties.
  - xi. Procedure for making amendments to the Agreement.
  - xii. Effectiveness, Termination of Agreement and Dispute Resolution.
- xiii. Governing Laws.
- xiv. Definitions (other than those covered in the NBFC Regulations and this Circular). and
- xv. Signatories to the Agreement and Witnesses.

## **Annexure-V**

### **Minimum Additional Information to be Disclosed in Offering Document of ETF**

AMCs shall ensure that the following disclosures are made in the offering document of an ETF in addition to the areas specified in Schedule VIII of the Regulations.

#### **Introduction to ETF**

- i. Description of ETF highlighting the basic features.
- ii. Advantages and disadvantages of ETF.
- iii. Difference between ETF and other Open-ended Funds.
- iv. Parties to an ETF. and
- v. Description of how an ETF works through a flow chart.

#### **Authorized Participant**

- i. Role, Duties and Responsibilities of Authorized Participants and Market Makers.
- ii. Names and Contact information of Authorized Participants. and Market Makers and
- iii. Salient features of Authorized Participant Agreement.

#### **Benchmark Index**

- i. Profile of Benchmark Index.
- ii. Constituent of Benchmark Index.
- iii. Circumstances under which Benchmark Index of ETF may change.
- iv. Disclosure of Risk Factors related to Benchmark Index.
- v. Constituents of Benchmark Index and weightings of the top 10 largest constituent securities (where applicable) of the benchmark index as of a date within a month of the date of the offering document.
- vi. Frequency with which benchmark index composition is reviewed.
- vii. Means by which investors may obtain the latest benchmark index information and other important news of the index. and
- viii. Target tracking error.

#### **Offer/Redemption of Units**

- i. Offer of units during Pre-Listing phase (Initial Offer).
- ii. Offer of units in Post-Listing phase.
- iii. Procedure of In-Kind Creation.
- iv. Procedure of In-Kind Redemption including monetary and time cost to the investor, and policy for partial shares.
- v. Procedure of Trading of ETF units on exchange.
- vi. Timeline for issuance and redemption of Creation Units. and
- vii. Frequency and Notification of change in Portfolio Deposit.

## **INAV**

- i. Calculation Methodology of INAV.
- ii. Mode and frequency of dissemination of INAV. and
- iii. Entity responsible for transmitting INAV.

## **Warnings/Risks**

- i. Where necessary, a statement to the effect that the investment of the scheme may be concentrated in the securities of a single issuer or several issuers.
- ii. A statement to the effect that there is no guarantee or assurance of exact or identical replication at any time of the performance of the benchmark index.
- iii. Circumstances that may lead to tracking errors and the related risks, and strategies employed in minimizing such errors.
- iv. A warning that benchmark index composition may change and underlying securities may be delisted.
- v. A warning in relation to any licensing conditions (including indemnity given to the index provider, if any) for using the benchmark index, and the contingency plan in the event of cessation of the availability of the benchmark index.
- vi. A warning of lack of discretion to adapt to market changes due to the inherent investment nature of index funds and that falls in the benchmark index are expected to result in corresponding falls in the value of the ETF.
- vii. A statement on whether the index provider and the AMC of the scheme (or its connected persons) are independent of each other. If not, the means by which possible conflicts of interests may be addressed. and
- viii. Any other information which is relevant and material for investors to make an informed investment decision.

## **CHAPTER 7**

### **PERFORMANCE BENCHMARKS FOR COLLECTIVE INVESTMENT SCHEMES**

#### **Performance Benchmarks for Collective Investment Schemes (CIS)<sup>65</sup>**

**7.1** The AMCs shall use the following performance benchmarks for the Collective Investment Schemes:

<b>No.</b>	<b>Category of Fund</b>	<b>Performance Benchmark</b>
1.	Money Market Scheme	70% three (3) months PKRV rates + 30% three (3) months average deposit rate of three (3)-AA rated scheduled Banks as selected by MUFAP
2.	Islamic Money Market Scheme	Three (3) months average deposit rates of three (3)-AA rated Islamic Banks or Islamic windows of Conventional Banks as selected by MUFAP
3.	Sovereign Income Scheme	Six (6) months PKRV rates
4.	Shariah Compliant Sovereign Income Scheme	Six (6) months PKISRV rates
5.	Income Scheme	Six (6) months KIBOR rates
6.	Shariah Compliant Income Scheme	Six (6) months average deposit rates of three (3)- A rated scheduled Islamic Banks or Islamic windows of Conventional Banks as selected by MUFAP
7.	Aggressive Income Scheme	One year KIBOR rates
8.	Equity Scheme	KSE-100 Index Or KSE-30 Index (Total Return Index)
9.	Islamic Equity Scheme	KMI-30 Index
10.	Balanced Scheme	Combination of performance benchmark of Equity and Fixed Income/Money Market scheme on the basis of actual proportion held by the scheme.
11.	Asset Allocation Scheme	Combination of performance benchmark of Equity and Fixed Income/Money Market scheme on the basis of actual proportion held by the scheme. OR Asset Allocation Scheme may also use a single benchmark i.e. equity market index or interbank interest rate benchmark rate with some premium.
12.	Fund of Funds Scheme	Combination of benchmarks of underlying. schemes on the basis of actual investments by the scheme
13.	Commodity Scheme	70% composition of daily closing US Dollar per ounce Gold at PMEX and 30% deposit rates of three (3)-AA rated scheduled banks as selected by MUFAP.
14.	Islamic Commodity Scheme	Combination of 70% PKR base closing price of physical gold and 30% deposit rates of three (3)- AA rated scheduled Islamic Banks or Islamic windows of Conventional Banks as selected by MUFAP.
15.	Index Scheme	Benchmark shall be the return of the Index tracked by the scheme

<sup>65</sup>SECP Direction No. 27 of 2016 dated August 25, 2016

- 7.2** The category of schemes which are using KIBOR/PKRV/PKISRYV as performance benchmark shall take average KIBOR/PKISRV/PKRV rate of corresponding period for which the performance of scheme is being compared against benchmark.

## **CHAPTER 8**

### **SELLING AND MARKETING OF COLLECTIVE INVESTMENT SCHEMES, SALES LOAD AND EXPENSES**

#### **8.1 Sale of Units of Collective Investment Schemes<sup>66</sup>**

The AMCs shall comply with the following in respect of sale of units of Collective Investment Scheme (CIS):

- 8.1.1 An AMC shall not be involved, directly or indirectly, in the mis-selling of units of CIS.
- 8.1.2 An AMC shall not sell units of a CIS under its management (directly or indirectly) by making a false or misleading statement, concealing or omitting material facts of the CIS and concealing the associated risk factors of the CIS.
- 8.1.3 An AMC shall take reasonable care to ensure suitability of a CIS to an investor before sale of units of the CIS.
- 8.1.4 An AMC shall ensure that any performance reporting/ presentation of a CIS is accompanied by all explanations, qualifications, limitations and other statements that are necessary to prevent such information from misleading investors.
- 8.1.5 An AMC shall ensure that promotional materials do not contain untrue statements or omit to state facts that are necessary in order to prevent the statements from being misleading, false or deceptive.

#### **8.2 Allocation of Net Asset Value on receipt of applications for investment in Mutual Funds<sup>67</sup>**

The AMCs shall comply with the following in respect of open-end funds being managed by them:

- 8.2.1 In case of receipt of complete application along with the online payment/ payment instrument within cutoff timings, for investment in open end funds following historical pricing mechanism. the AMC shall allocate the closing NAV of the day immediately preceding the day of receipt of application.
- 8.2.2 In case of receipt of complete application along with the online payment/ payment instrument within cutoff timings, for investment in open end funds following forward pricing mechanism. the AMC shall allocate the closing NAV of the day of receipt of application.

The NAV allocated with respect to each application along with a copy of application and payment instrument shall be provided to the trustee of the respective fund on the same day. AMCs shall ensure that each payment instrument is deposited expeditiously by utilizing the appropriate banking facility. The units of the CIS shall however, be issued only upon

---

<sup>66</sup> SECP Circular No. 23 of 2013 dated Dec 06, 2013

<sup>67</sup> SECP Direction No. 02 of 2015 dated July 08, 2015



realization of payment.

In case an AMC has reasons to believe that it is not prudent to allocate NAV upon receipt of application in case of a specific category of fund such as Money Market /Income Funds or particular investor/class of investor(s), it may exercise its own discretion and allocate NAV to such investors/class of investor(s) upon realization of payment instruments. However, in all such cases, the AMCs shall maintain a proper record along with reasons for exercising such discretion.

### 8.3 Sales Load being charged by Collective Investment Schemes<sup>68</sup>

The AMCs shall ensure that where the offering document of the Collective Investment Scheme (CIS) permits charging of sales load, the cumulative sales load does not exceed 3% of the NAV per unit. In this respect the AMC shall ensure following complete disclosures along with requisite documents:

- 8.3.1 Clearly disclose, at the time of investment, the maximum rate of Sales Load that is being charged to the unitholder.
- 8.3.2 Obtain duly signed acknowledgement from the unit holder to ascertain that all the terms and conditions along with details of Sales Load to be deducted, have been read and understood by the unitholder. and
- 8.3.3 Issue to the unit holder, within 48 hours of the realization of funds, breakup of the total amount received from the unitholder, sales load charged and net amount invested in the fund on his behalf as per the following format:

Particulars	Amount / Percentage
Investment Amount Received	Rs:
Front End Load	Rs: (% of NAV per unit (at the time of investment))
Net Amount Invested	Rs: (Investment Amount Received-Amount of Front-End Load)
Back End Load (to be charged)	Rs: [% of NAV per unit to be charged at the time of issuance or redemption (please specify)]

- 8.3.4 An AMC may charge sales load maximum up to 3% of the NAV per unit if investor approaches directly for investment and may charge sales load maximum up to 1.5% of the NAV per unit where transactions are done online or through a website.<sup>69</sup>
- 8.3.5 For the purpose of this Circular, sales load means front end load deducted at the time of investment or back end load charged at the time of redemption from the CIS. However, the load charged upon redemption and which forms part of the CIS property shall not classify as sales load.

<sup>68</sup> SECP Circular No. 26 of 2015 dated July 27, 2015

<sup>69</sup>SECP Circular No.27 of 2017 dated November 08, 2017

#### **8.4 Cooling-off right for individual unit holders of open-end Collective Investment Scheme<sup>70</sup>**

The AMCs shall provide a right to the unit holders to obtain a refund of their first-time investment (cooling-off right) in a collective investment scheme (CIS) managed by the AMC, if the unit holder so requests within the stipulated time period (cooling-off period). In this respect the AMC shall comply with the following:

- 8.4.1 The cooling-off right, cooling-off period and procedure to exercise such right shall be adequately disclosed in the investment form signed by the unit holder at the time of purchase of units.
- 8.4.2 The cooling-off right shall be available to individual unit holders only.
- 8.4.3 The cooling-off right shall be available only for first time investment by an individual unit holder in a particular CIS.
- 8.4.4 The cooling-off period shall comprise of three business days commencing from the date of issuance of investment report to the unitholder as per Circular 26 of 2015.
- 8.4.5 The cooling-off right shall be exercised by the unit holder upon written request to the AMC within specified cooling-off period.
- 8.4.6 The refund for every unit held by the unit holder pursuant to the exercise of a cooling-off right should be an amount equal to NAV per unit applicable on the date the cooling-off right is exercised.
- 8.4.7 The AMC shall also refund any sales load paid by the unit holder.
- 8.4.8 The contingent load shall be payable by the unit holder on exit from the CIS where such load is admissible as per the constitutive document of the CIS.
- 8.4.9 For the purpose of this direction, contingent load means the load charged upon redemption and which forms part of the CIS property.
- 8.4.10 The refund pursuant to the exercise of a cooling-off right shall be paid to the unit holder within six business days of receipt of written request from the unit holder. and
- 8.4.11 The AMC shall also ensure that before signing of investment form, the investor is provided, the latest Fund Manager Report (FMR) in case of investment in an existing CIS. Whereas for new CIS, the AMC shall provide a fact sheet of the CIS containing information as per Section 1(Basic Fund Information) of FMR prescribed by MUFAP excluding Net Assets of CIS, NAV per unit, Fund Stability Rating and leveraging done by the CIS.

#### **8.5 Revised Conditions for Charging of Selling and Marketing Expenses to Mutual Funds<sup>71</sup>**

The AMCs shall comply with the following conditions for charging of selling and marketing

---

<sup>70</sup> SECP Direction No. 31 of 2016 dated September 22, 2016

<sup>71</sup>SECP Circular No.11 of 2019 dated July 05, 2019 (not found)

expenses to Collective Investment Schemes managed by them:

8.5.1 Selling and Marketing expenses will be allowed on all categories of open-end mutual funds (except fund of funds).

8.5.2 The selling and marketing expenses can only be used for the following purposes:<sup>72</sup>

- (a) Cost pertaining to opening and maintenance of all branches by AMCs in all cities.
- (b) Payment of salaries to sales team posted at all branches of an AMC.
- (c) Payment of commission to sales team and distributors in all cities of Pakistan.
- (d) Payment of advertising and publicity of these funds. and
- (e) Payment of expenses related to development and maintenance of alternative delivery channels/distribution including.
  - i. Technology and software development.
  - ii. Website development and related advertising.
  - iii. Creation of investors online touch points and related advertising charges.
  - iv. Investor's portal and related advertising charges. and
  - v. Mobile applications and related advertising.

8.5.3 AMCs that intend to charge these expenses to funds, shall submit their annual plan to their Board of Directors for approval. The plan should cover, at a minimum the following.<sup>73</sup>

- (a) Name of funds to which such expenses will be charged.
- (b) Projected selling and marketing expenses by an AMC from its own sources.
- (c) Maximum expense limit that will be charged.
- (d) Nature of Expenses that will be charged.
- (e) Plan for increasing retail outreach by charging such expenses:
  - i. Targeted branch network and net assets to be increased.
  - ii. Targeted increase in number of investors.
  - iii. Targeted sales staff to be increased. and
  - iv. Targeted distribution arrangement and commission structure.
- (f) Status of achievement of AMC against the last year submitted plan.

8.5.4 Expenses to be paid to AMC at the end of each quarter on reimbursement basis subject to verification of documentary evidence by the trustee and ensuring that expenses are used for the purposes allowed. In case of dispute between AMC and trustee, the matter shall be referred

---

<sup>72</sup> SECP Circular No. 40 of 2016 dated December 30, 2016

<sup>73</sup> SECP Circular No. 05 of 2017 dated February 13, 2017

to the Commission and decision of the Commission shall be binding on both AMC and trustee.

- 8.5.5 These expenses shall be counted in the Total Expense Ratio cap of the fund and AMC shall adjust the NAV of the fund on daily basis.
- 8.5.6 These expenses shall be separately disclosed in the fund manager's report and published accounts of funds.
- 8.5.7 The Board of Directors of an AMC shall at least on quarterly basis monitor the performance of annual plan of AMC and proper application of selling and marketing expense charged to fund as per the approved plan.

#### **8.6 Restriction on sharing of management fee by AMCs with Unit holders<sup>74</sup>**

The practice of sharing management fee earned by AMCs on Collective Investment Schemes (CIS) with the unit holders of CIS prevails in the mutual fund industry. This practice is considered as one of the factors that hampers the broadening of investor base which is imperative for sustainable growth of the mutual fund industry. The Commission has directed all AMCs to comply with the following instructions: -

- 8.6.1 AMCs shall not share, directly or indirectly, the management fee earned on CIS under its management with any of the unit holders of such CIS in any form whether in cash or in kind. and
- 8.6.2 AMCs, while entering into an agreement with the distributor of Mutual Funds, shall ensure that such distributor does not share commission/fee in any form with the underlying unit holders of a CIS. Whenever an AMC becomes aware of any distributor sharing commission / fee received from AMCs with its clients (i.e. unitholders of a CIS), the AMC shall immediately report the same to MUFAP which may consider cancellation of registration of such distributor.

---

<sup>74</sup> SECP Letter No. NBFCD/ 178 /2012 dated June 11, 2012

## **CHAPTER 9**

### **VALUATION AND PROVISIONING**

#### **Valuation of Debt Securities and Provisioning Criteria for Non-Performing Debt Securities<sup>75</sup>**

**9.1** This is applicable only to the debt securities held by Collective Investment Schemes for determining daily Net Asset Value (NAV).

9.1.1 For this purpose, debt security means any security issued by a company or a body corporate for the purpose of raising funds in the form of redeemable capital includes Term Finance Certificates (TFCs), bonds, debentures, Sukuks, and commercial papers etc.

9.1.2 The SECP directs all the AMCs to apply the enclosed methodology in true letter and spirit to arrive at fair valuation of debt securities and provisioning thereon for determining true and fair daily NAVs. Adoption of the said methodology is aimed at bringing consistency across the mutual fund industry and is expected to lead to fair price discovery of debt securities. Methodology for Valuation of Debt Securities and Provisioning criteria for Non-Performing Debt Securities are enclosed at **Annexure-VI** and **Annexure-VII** of this circular respectively

9.1.3 The value of debt of securities based on methodology for valuation of debt securities shall be determined and announced by MUFAP on the monthly basis (in the middle of the month). However, in case of any significant event (like changes in discount rate, KIBOR, etc.), fresh valuation of debt securities shall be carried out by MUFAP immediately. After expiry of (8) weeks, the valuation of debt securities shall be determined and announced by MUFAP on daily basis. MUFAP shall announce these valuations on its website and shall maintain all the relevant data and working for at least 18 months.

9.1.4 In order to ensure consistent application of the methodology for valuation of debt securities, the MUFAP, in consultation with the Commission, shall appoint an accounting firm for conducting audit on regular basis.

9.1.5 Given the specialized nature of methodology for valuation of debt securities the same shall be reviewed by MUFAP on an ongoing basis and at least quarterly. Any refinements that are deemed necessary shall be presented by MUFAP to the Commission immediately for its consideration.

#### **9.2 Reporting of trade information by all AMC for dealing in debt securities<sup>76</sup>**

9.2.1 In order to ensure that valuations of debt securities derived from the prescribed methodology are meaningful and that NAVs are true and fair representative, the Commission deems it appropriate to direct all AMCs to report to the Mutual Funds Association of Pakistan as and when they execute all transactions (buy or sell trade) in a debt security.

---

<sup>75</sup>SECP Circular No. 1 of 2009 dated January 06, 2009

<sup>76</sup>SECP Circular No. 02 of 2009 dated January 14, 2009

9.2.2 Therefore, all AMCs are hereby directed to report trade related information for debt securities to MUFAP in accordance with the format mentioned below.

9.2.3 AMCs are further directed to ensure appropriate records and documents including broker notes, as evidence for the actual trade, are maintained for a period of at least 18 months from the date of such trade. Transactions (if any) executed during January 1, 2009 to date shall be reported immediately by the AMCs on a consolidated basis to MUFAP and the Commission.

**Detail of Debt Securities sold/purchased by Collective Investment Scheme**

Trade Date	Issue name	Nature of Debt Security (TFC/Sukuk etc)	Detail of issue	Issue Date	Maturity Date	Listed/ Unlisted	Secured/ Unsecured	CDC Eligibility	Rating	Rated by (agency)	Base Rate	Spread	Interest/profit reset cycle	Face Value	Trade Volume (no. of cert.)	Trade Value (in mn)	Trade Price

### 9.3 Provisioning Policy for Non-Performing Exposure of Collective Investment Schemes<sup>77</sup>

In order to ensure fair determination of Net Asset Value (NAV) backed by Provisioning Policy duly approved by the Board with proper rationale and adequate disclosures to the unit holders and prospective investors, the Commission directs all AMCs to comply with the following:

9.3.1 AMCs deciding to make any provision against exposure such as COIs, CODs, COMs, LOP, money-market placements, etc. or any additional provision against debt securities i.e. over and above the minimum provisioning requirements as prescribed above under Circular No. 1 of 2009 shall formulate a comprehensive Provisioning Policy duly approved by their Board of Directors prior to making of such provisions.

9.3.2 The Provisioning Policy approved by the Board shall inter-alia contain:

- (a) Eligibility criteria for debt security and other exposure for making provision.
- (b) Criteria for classification as non-performing exposure.
- (c) Provisioning requirements including the minimum time frame for maintaining the applied provisions.
- (d) Criteria for suspension of mark up.
- (e) Criteria for reversals of provisioning. and
- (f) Requirements for disclosure of the Provisioning Policy to unit holders and prospective investors.

9.3.3 The Provisioning Policy as approved by the Board shall be immediately disclosed / disseminated by the AMC to the existing unit holders, prospective investors, trustee of the scheme and the Commission. The same shall also be disseminated by the AMC on its website, in addition, requisite amendments in the constitutive documents of the scheme shall be incorporated at the earliest, the provisioning made in light of the Provisioning Policy shall be disclosed by the AMC in the quarterly, half yearly and annual accounts of the scheme.

<sup>77</sup>SECP Circular No. 13 of 2009 dated May 04, 2009

## Annexure-VI

### Methodology for Valuation of Debt Securities<sup>78</sup>

#### Chapter 1

##### **1A. Classification of Debt Securities**

The debt securities held by the Collective Investment Schemes shall be classified as per the following criteria:

###### **1. Traded Securities**

Debt securities that have a minimum traded volume of Rs.15 million during the 30 (calendar) days period before the valuation date.

###### **2. Thinly Traded Securities**

Debt securities that have a traded volume of less than Rs.15 million but equal to or more than Rs.1 million during the 30 days period before the valuation date.

###### **3. Non-Traded Securities**

Debt securities that have a traded volume below Rs. 1 million during the 30-day period before the valuation date.

Debt securities classified on the above basis, shall be further categorized as follows and valued accordingly:

- (a) **Rated** - Debt security rating shall be used and where no such rating is available the rating of the issuing company or the body corporate shall be applicable. In case of more than one rating, the most conservative publicly available rating shall be used.
  - Investment Grade (credit rating of BBB and above)
  - Non-Investment Grade
    - i. Performing Assets
    - ii. Non-Performing Assets (issuer delays an interest/principal payment)
- (b) **Non-rated** — issue where neither the debt security nor the debt issuing company or the body corporate is rated shall be classified as non-rated
  - An internal rating shall be assigned by MUPFAP and such rating shall be a notch below the rating of a comparable issue/issuer rating in the same sector/industry.

---

<sup>78</sup>SECP Circular No. 33 of 2012 dated October 24, 2012

- If a comparable issue/issuer is also not available, the issue shall be treated below investment grade and valued as elaborated in “valuation of non-investment grade debt securities” mentioned below in Chapter 2,

## **Chapter 2**

### **2A. Valuation of Traded Debt Securities**

All debt securities classified as traded securities shall be valued on the basis of their volume weighted average price during the fifteen (15) calendar days preceding their valuation date. In case of no trades during the last 15 days period, trades during the thirty (30) calendar days preceding the valuation date shall be used for the purpose of calculating the volume weighted average price.

### **2B. Valuation of Thinly and Non-Traded Debt Securities**

#### **(a) Investment Grade**

The performing investment grade debt securities shall be classified as under:

- Debt Securities with residual maturities of up to six months** — Such non-traded and thinly traded debt securities shall be valued on the basis of amortization to its face value.
- Debt Securities with residual maturities of over six months** — Such non-traded and thinly traded debt securities shall be valued in accordance with the yield matrix as explained in Chapter 3 below:

In case an investment grade debt security is classified as non-performing, the determined value shall be provided for in accordance with the **Annexure-VII**.

#### **(b) Non-Investment Grade**

Non-investment grade performing debt securities shall be valued at a discount of 25% to the face value.

In case a non-investment grade debt security is classified as non-performing, the determined value (discount of 25% to face value) shall be provided for in accordance with the **Annexure-VII**.

## **Chapter 3**

### **3A. Valuation Process - Yield Matrix**

#### **Step I: Establishment of a Benchmark:**

A risk-free benchmark yield shall be built, for which yields published by Reuters (PKRV) for the government securities shall be grouped into following seven tenor (maturity) buckets:

- 3-6 months
- 0.5-1 years
- 1-2 years
- 2-3 years
- 3-4 years
- 4-5 years
- 5-6 years or any longer period



In order to capture the interest rate risk, the debt securities shall be classified on the basis of coupon structure i.e., floating or fixed rate coupon. In case of a debt security structured on floating rate coupon, the relevant tenor bucket shall be applied based on the coupon rate resetting cycle (3months, 6months, one year, etc.). In case of a debt security structured on fixed rate coupon, the relevant tenor bucket shall be applied based on the residual time to maturity.

## Step II: Adding a Credit Spread:

A matrix of spreads (based on the credit risk) shall be built for marking up the benchmark yields. For this purpose, following criteria shall be applied:

- (a) Trades of debt securities of various ratings shall be used and all traded debt securities (with minimum traded value of Rs.15 million) during the fortnight under consideration shall be classified by their ratings and grouped into following rating buckets. Each rating bucket shall further be classified into the following sub buckets according to weighted average residual maturity (WARM).
  - i. Less than One year
  - ii. Between 1 and 3 years
  - iii. Between 3 and 5 years
  - iv. Over 5 years

Rating/WARM	Less than one Year	1 to 3 years	3 to 5 years	Over 5 years
AAA				
AA+				
AA				
AA-				
A+				
A-				
BBB+				
BBB				

- (b) All trades during the fortnight prior to the valuation date shall be used in building the corporate Yield to Maturity (YTM) and spread matrices. The spreads so calculated shall be computed fortnightly and average volume weighted yield shall be computed.
- (c) Employing the traded prices as well as primary issuances during the considered month, average volume weighted yield for each rating shall be determined. In the absence of which, the information during the 30-day period prior to the valuation date shall be considered.
- (d) In the event of lack of trades in the secondary market and the primary market, the gaps in each matrix shall be filled by extrapolation. (i.e. if the yield for a particular rating cannot be determined, the average of the yields for a notch above and below shall be used for determining its yield). In case of extrapolation for sub-buckets i.e. weighted average residual maturity, an appropriate factor shall be applied and the same shall be disclosed with rationale.

- (e) If extrapolation is not possible, the gaps in the matrix shall be filled by carrying the spreads from the last matrix.
- (f) In case, the market determined yield curve is not smooth (i.e. the determined yield for a lower rating is lower than the determined yield of a higher rating, which theoretically is not possible), extrapolation (as described above) may be used to smoothen up the yield curve.

### Step III: Mark up/Mark down of Yield

The yields calculated by MUFAP in accordance with the above steps may be marked- up/marked-down by applying discretionary discount by AMCs as per the following criteria:

#### Application of Discretionary Discount

- (a) The asset manager shall have the discretion to apply a markup/mark down (within the available limit as specified below) to yield of any specific debt security.
- (b) Discretionary markup/mark down shall be applied to take into account the following aspects associated with a specific debt security:
  - i. Illiquidity risk
  - ii. Sector specific risk,
  - iii. Issuer class risk.
- (c) Markup/mark down shall be determined on the basis of whether the issue is rated or unrated as per table below.

	<b>Rated</b>	<b>Unrated</b>
Duration up to 2 Years	+200/-100 bps	+50 bps
Duration over 2 years	+150/-50 bps	+50 bps

**Temporary Relief<sup>79</sup>** : The Maximum limit for application of discretionary discount has been enhanced as per the following table: -

	<b>Rated</b>	<b>Unrated</b>
Duration up to 2 Years	+400/-200 bps	+100 bps
Duration over 2 years	+300/-100 bps	+100 bps

- (a) Application of discretionary markup/mark down shall be approved by the Investment Committee (with proper written Justification) and shall be reported on the same day to the Board of Directors (of AMC), MUFAP, SECP and the Trustees. The decision in relation to application of the discretionary markup/mark down shall be ratified by the Board of the AMC in the next meeting.
- (b) Discretionary markup/mark down, if applied, shall be reviewed fortnightly or on occurrence of any significant change in the financial markets by the Investment Committee.

<sup>79</sup> SECP Circular No. 11 of 2020 dated April 09, 2020

## **Mark up of yield of performing debt securities**

In addition to the above discretion, an AMC shall not provide for against a performing debt security. However, MUFAP shall have the discretion to apply maximum mark-up of up to 500bps to the calculated yield of any specific debt security after taking into account the potential credit risk of any particular performing debt security or considering any unusual factor/event associated with the issuer, issue or sector in order to ensure consistent and transparent valuations for entire mutual fund industry. Such factors/events may include following:

- i. Issuer of the performing debt security has defaulted on its other financial obligations.
- ii. Rating of the performing security has been significantly downgraded in a short time span.
- iii. Breach of covenants relating to the performing debt security.
- iv. Deteriorating operating, financial and cash flow position of the issuer.
- v. Unfavorable conditions or weak outlook of the specific sector.

Such factors/events shall be duly documented/noted in the decision taken by MUFAP while adjusting valuation of such securities.

## **Step IV: Valuation**

The risk adjusted yields so arrived shall be used to discount all future cash flows of a debt security to determine its value

### **3B. Review of Spread**

The maturity spreads (across tenors) and credit spreads (across rating grades) used in the model shall be reviewed and updated quarterly by MUFAP based on a review of 3-month, 6 month and 1 year spreads.

### **3C. Capping of Prices**

In case, if price of a debt security increases solely due to reason of movement from traded to non-traded category, MUFAP shall cap it at its last traded price.

## **Annexure-VII**

### **Provisioning Criteria for Non-Performing Debt Securities**

#### **A. Classification as A Non-Performing Asset (NPA)**

A debt security shall be classified as non-performing, if the interest and/or principal amount is past or overdue by 15 calendar days<sup>80</sup> from the due date.

**Temporary Relief:** The time period for classification of a debt security to non-performing category is extended from 15 days to 180 days. Debt securities which are regular in payment of mark up, however, deferred the payment of principal for one year as per the agreement shall be treated as performing. Debt securities which are rescheduled/restructured between these 180 days shall continue to be treated as performing. These relaxations, shall stand expired on March 31, 2021. and afterwards prevailing instructions on the subject shall be applicable.

#### **B. Suspension and Reversal of Interest/Profit**

- (a) The accrual of interest/profit shall be suspended from the first day the interest/profit payment falls due and is not received.
- (b) All interest/profit accrued and recognized in the books of Collective Investment Scheme shall be reversed immediately once a debt security is classified as non- performing.
- (c) In case a Collective Investment Scheme has received all arrears of interest and the debt security has not been reclassified as performing, the suspension of interest shall continue.

#### **C. Minimum Provisioning Against the Principal Amount**

- (a) All non-performing debt securities whether secured or unsecured shall be provided for in accordance with the following criteria from the day of classification as non-performing:

<b>Effective day for Provisioning</b>	<b>Minimum Provision as % of book value (outstanding principal amount)</b>	<b>Cumulative Provision</b>
90 <sup>th</sup> days	20%	20%
180 <sup>th</sup> day	10%	30%
270 <sup>th</sup> day	10%	40%
365 <sup>th</sup> day	10%	50%
455 <sup>th</sup> day	10%	60%
545 <sup>th</sup> day	10%	70%
635 <sup>th</sup> day	10%	80%
725 <sup>th</sup> day	10%	90%
815 <sup>th</sup> day	10%	100%

<sup>80</sup> SECP Circular No. 35 of 2012 dated November 26, 2012

- (b) In the process of arriving at minimum provisioning against non-performing debt securities as per the timeline given above an AMC may exercise discretion with respect to the timing for creating the requisite provision such as immediately on the day of classification as non-performing or spreading it over the number of days, as deemed appropriate in the best interest of unit holders. However, the minimum provision on effective day shall be in accordance with the schedule given above.
- (c) Where a debt security immediately preceding its classification as non-performing is valued at a discount to its outstanding principal amount, such discount may be accounted for while arriving at the minimum provision. However, if any such discount exceeds the requisite provisioning, the excessive discount shall not be written back and debt security shall be carried at the existing value upon classification as non-performing.
- (d) In addition to the minimum provision prescribed above, any installment of principal amount in arrears during the period of non-performance shall also be fully provided,

Note: The above criteria outline the minimum provisioning requirements. however, the AMC has the discretion to provide for more than these requirements if the circumstances warrant such provision, subject to the approval of Board and disclosure in quarterly, half yearly and annual accounts.

#### **D. Reclassification of Non-Performing Debt Securities**

- (a) The debt security shall only be reclassified as performing once all the arrears have been received in cash and debt security is regular on all payments (interest as well as principal) for the next two installments.
- (b) In case of non-performing debt securities which have been rescheduled/restructured, the debt security shall only be re-classified as performing if all the following conditions are met:
  - i. The terms and conditions of rescheduled/restructured debt security are fully met for a period of at least one year.
  - ii. All the arrears (till the date of restructuring) have been received in cash. and
  - iii. An amount equivalent to two installments (excluding grace period, if any) as per original repayment term (before rescheduling) are paid in cash.

However, during rescheduling/restructuring period the AMC may stop creating additional provisioning against restructured/rescheduled debt security. If the debt security subsequently did not perform as per rescheduling/restructuring agreement the debt security shall be treated as non-performing from date of its original default

#### **E. Reversal of Provisions**

- (a) The unrealized interest mark-up amount reversed shall be written back to income up to the extent it is received in cash.
- (b) The provision made for principal amount shall be written back to the extent it is received in cash and the remaining provision shall cover the minimum provision required. The full provision shall be reversed when the debt security is reclassified as performing.<sup>81</sup>

---

<sup>81</sup>SECP Circular No. 33 of 2012 dated October 24, 2012

Clarification in respect of Circular No. 03 of 2010 is as follows.<sup>82</sup>

- i. In the process of arriving at minimum provisioning against non-performing debt securities as per the timeline given on Page 1 of 2 of Annexure II to Circular 01 of 2009, an AMC may exercise discretion with respect to the timing for creating the requisite provision such as immediately on the day of classification as non-performing or spreading it over the number of days, as deemed appropriate in the best interest of unit holders. However, the minimum provision on effective day shall be in accordance with the schedule given on Page 1 of 2 of the Annexure II to Circular No. 01 of 2009.
- ii. Where a debt security immediately preceding its classification as non-performing is valued at a discount to its outstanding principal amount, such discount may be accounted for while arriving at the minimum provision. However, if any such discount exceeds the requisite provisioning, the excessive discount shall not be written back and debt security shall be carried at the existing value upon classification as non-performing.
- iii. Where a debt security earlier classified as non-performing subsequently performs as per the original repayment terms and all the arrears of interest and principal are duly received, such debt security shall immediately be re-classified as performing and the provision made against such security shall be written back. The condition of receipt of next two installments for re-classification of non-performing security as performing is only applicable in case of rescheduled/restructured debt securities.
- iv. An AMC shall not provide for against a performing debt security. However, MUFAP shall have the discretion to apply maximum mark-up of up to 500bps to the calculated yield of any specific debt security after taking into account the potential credit risk of any particular performing debt security or considering any unusual factor/event associated with the issuer or issue in order to ensure consistent and transparent valuations for entire mutual fund industry. Such factors/events may include following:
  - Issuer of the performing debt security has defaulted on its other financial obligations.
  - Rating of the performing security has been significantly downgraded in a short time span.
  - Breach of covenants relating to the performing debt security.
  - Deteriorating operating, financial and cash flow position of the issuer.

Such factors/events shall be duly documented/noted in the decision taken by MUFAP while adjusting valuation of such securities.

---

<sup>82</sup> SECP Circular No. 3 of 2010 Dated January 20, 2010

**CHAPTER 10**  
**MANDATORY CERTIFICATIONS FOR PROFESSIONALS OF NBFCs AND**  
**DISTRIBUTION OF UNITS OF CIS**

**Mandatory Certification for The Professionals of AMCs, Pension Fund Managers and Investment Advisors<sup>83</sup>**

**10.1** All existing professionals engaged in or employed by these NBFCs for the following activities shall obtain Pakistan Markets and Regulations Program (PMR) and Fundamentals of Capital Market (FCM) certifications currently being offered by IFMP:

- (a) Business and product developments: - those responsible for sale (retail/institutional), marketing, investor relations/services, and product design.
- (b) Fund/Investments Management: those managing the portfolio or investment including all members of investment committees.
- (c) Operations: those responsible for fund and client accounting, trustee relations and execution of trades.
- (d) Settlement: those responsible for settlement of all trades.
- (e) Research: those carrying out fundamental analysis of all existing and potential investment.
- (f) Compliance: those responsible for ensuring compliance with applicable business regulatory requirements. and
- (g) Risk: those responsible to ensure that investments are within a desirable level of risk.

10.1.1 All persons engaged in sales function of Non-Banking Finance Companies (NBFCs) by NBFCs or third parties engaged by NBFCs for the sale of collective investment schemes and pension funds shall be required to obtain only Mutual Fund Distributors Certification (MFDC). These persons are no longer required to obtain Pakistan Markets and Regulations Program (PMR) and Fundamentals of Capital Market Certifications (FCM).

10.1.2 The PMR and FCM certifications shall be mandatory only for Chief Executive Officers, Chief Investment Officers, Head of Operations, Head of Compliance and Head of Sales (by whatever name called) of NBFCs.

10.1.3 The PMR, FCM and MFD certifications shall be mandatory for all sales supervisors (by whatever name called) of third parties engaged by the NBFCs for the sale of collective investment schemes and pension funds.]<sup>84</sup>

10.1.4 All new professionals joining these NBFCs or a third party engaged by these NBFCs for any of the above referred function or activity shall obtain PMR and FCM certifications within 12

---

<sup>84</sup>SECP Circular No. 48 of 2015 dated Dec 31, 2015

months of their joining. However, if a new professional is engaged in sale of collective investment schemes or pension funds, he/she shall obtain MFDC in addition to PMR and FCM certification within 12 months of his/her joining.

- 10.1.5 Professionals desirous of availing certification through grandfathering provision should approach the Institute of Financial Markets of Pakistan (IFMP) at any time, if they fulfill the criteria<sup>85</sup>.
- 10.1.6 NBFCs shall ensure that their employees who obtain certification through exam or grandfathering shall comply with all certification requirements.
- 10.1.7 All the professionals working with or working for the NBFCs in respect of above defined activities shall comply with the applicable mandatory certification requirement. It shall be responsibility of NBFCs to ensure compliance of above requirements by any third party to whom any of the above mention function or activity has been delegated.

## **10.2 Mandatory Requirements for Distributors Selling Mutual Fund Units of Single AMC<sup>86</sup>**

The SECP has prescribed the following requirements for employees and distributors of an AMC selling Mutual Fund units of a single AMC only and are exempted from seeking license/registration from the Commission or Mutual Funds Association of Pakistan (MUFAP):

- 10.2.1 The minimum eligibility criteria for a distributor to sell and distribute mutual fund units of a single AMC only shall be as follows:
- (a) Individuals with Matric/O level or FA/FSc. / A Level or Graduation or Master or their equivalent with certification from Institute of Financial Market of Pakistan (IFMP). OR
  - (b) Individuals with MBA/MPA/Masters in Commerce/CA/CFA/FRM/ACMA/ACCA/CIMA, or any other related professional qualification. OR
  - (c) Retired government/semi government officer of grade 16 and above with a service of at least 10 years. OR
  - (d) Retired bank officer of OG II or above with a service of at least 10 years. OR
  - (e) Individuals already working as insurance agents subject to submission of its valid registration certificate from any of the insurance company and verification of credentials from such insurance company. OR
  - (f) Individuals already acting as distributors of mutual funds for the last 3 years. OR
  - (g) Any other person if all of its employees engaged in selling of mutual fund units complies with the eligible criteria referred in sub clause (a), (b), (c), (d) and (f) above.
- 10.2.2 The requirements mentioned in section 8.1 of this Chapter shall not apply on employees of an

---

<sup>85</sup>SECP Circular No.12 of 2018 dated July 10, 2018

<sup>86</sup>SECP Circular No.41 of 2016 dated Dec 30, 2016



AMC engaged in sales and distribution, individual distributors, and employees of a company/firm which act as distributor for a single AMC.

- 10.2.3 Individuals referred in clause 1(a) of 8.2 above having minimum qualification of the graduation or above may sell mutual fund units after taking in-house training of minimum 3 days from an AMC without new IFMP certification. However, these individuals shall get new IFMP certification within six months from date joining the AMC or Distributor<sup>87</sup>
- 10.2.4 All relevant employees of AMCs and employees of companies/firms which act as distributor for a single AMC are also required to comply with the eligibility criteria referred in clause 1 and certification requirements referred in clause 3 above.
- 10.2.5 All the relevant employees of an AMC, individual distributors and employees of companies/firms which act as distributor for a single AMC are also required to comply with the requirements of sub clause (c), (d), (e), (f) and (g) of Clause 66A of the Non-Banking Finance Companies and Notified Entities Regulations, 2008.
- 10.2.6 All the distributors have to enter into written distribution agreement with one AMC only for distribution of unit of its mutual funds. Prior to entering into distribution agreement, the AMC shall ensure that such distributor is not selling or distributing units of mutual funds for any other AMC and complies with the aforementioned eligibility criteria.
- 10.2.7 AMC shall allocate unique identification number to all of its employees engaged in sales and to its distributors. The company/firm which acts as distributor for a single AMC shall also allocate unique identification number to all of its employees engaged in sales. The AMC shall maintain a register containing details of its own employees and its distributors along with their employee details and unique identification numbers which shall be send to MUF AP on monthly basis. The MUF AP shall be responsible for maintaining centralized data base and shall disseminate and update this data on its website for the information of investors.
- 10.2.8 AMC shall devise the risk profiling criteria to be used by its own employees and its distributors for soliciting investment from investors.
- 10.2.9 Each AMC shall arrange an in-house training for its own employees and its distributors twice a year. Moreover, each company/firm which acts as distributor for a single AMC shall also arrange an in-house training for its own employees twice a year.
- 10.2.10 AMC and its distributors (in case of company/firm) shall issue a proper identification card to each individual who is engaged in distribution of mutual funds which would be displayed to the prospective investors.
- 10.2.11 AMC shall be responsible for the acts and omissions of all of its employees and its distributors if they were its own acts and omissions.

---

<sup>87</sup>SECP Circular No.18 of 2018 dated October 16, 2018

### **10.3 Mandatory Certification Requirements for Sales Agents of AMCs / PFMs<sup>88</sup>**

- 10.3.1 AMCs and PFMs shall have at least two persons or 20 percent of their employees (whichever is higher), undertaking activities related to sale of collective investment schemes or pension funds, who shall obtain the Institute of Capital Markets ("ICM") Certification for Mutual Funds Sales Agents latest by June 30, 2011.
- 10.3.2 Any new professional entrants appointed by the AMCs / PFMs for undertaking sales related activities shall obtain the ICM Certification for Mutual Funds Sales Agents within one year of his / her date of employment with the AMC / PFM.
- 10.3.3 It shall be the responsibility of the AMCs and PFMs to ensure any third-party distributors to whom the distribution / sales function has been delegated fulfill the above two requirements by June 30, 2011.

Existing employees of the AMCs or PFMs who are aged 35 or above and have relevant capital market experience of at least five (5) years shall be exempt from obtaining the above certification.

---

<sup>88</sup> SECP Circular No. 35 of 2009 dated October 30, 2009

## **CHAPTER 11**

### **OUTSOURCING ARRANGEMENTS**

#### **Requirements for Delegation of Functions by AMCs in relation to Collective Investment Schemes<sup>89</sup>**

The AMC shall comply with the following for delegation of any functions (excluding distribution function):

##### **11.1 Definitions**

**Service Provider** means a company to whom functions related to Collective Investment Scheme (CIS) are delegated by an AMC.

##### **11.2 General**

- 11.2.1 An AMC may delegate to a third party ("Service Provider") any of its functions in relation to a CIS under its management, except its core functions which includes investment decision making, risk management and compliance functions. However, in case of investment abroad on behalf of CIS an AMC may appoint investment advisor for such investments.
- 11.2.2 An AMC shall ensure that a function delegated to a service provider is not sub delegated by such service provider to another party.
- 11.2.3 An AMC may delegate its function in relation to accounting of a CIS to a Service Provider provided the Service Provider to which such function is delegated has a Chief Accounting Officer / Chief Financial Officer who is compliant with the criteria specified under rule 7(a)(vi)(c) of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003.
- 11.2.4 An AMC may delegate function(s) to a Service Provider, initially for a period not exceeding three years and subject to satisfactory performance of such Service Provider may extend term of contract for such period as it may deem appropriate.
- 11.2.5 An AMC may delegate function to its associates or group entities provided such associate or group entity has in place systems, infrastructure, manpower, decision making, record keeping, etc. for avoidance of any conflict of interest and to ensure an arm's length dealing with the AMC and CIS under its management.

##### **11.3 Responsibilities of Board of Directors and Senior Management**

- 11.3.1 An AMC shall obtain prior written approval of its Board of Directors for entering into an agreement with the Service Provider for delegation of any functions.
- 11.3.2 An AMC shall conduct due diligence of the Service Provider, prior to engaging it, to assess its capabilities and expertise in performing the functions being delegated. Such an assessment

---

<sup>89</sup>SECP Circular No.24 of 2013 dated December 06, 2013

shall inter alia, include the following:

- (a) Capacity of the Service Provider to comply with its obligations under the service level agreement.
- (b) Adequacy of the resources and ability of the Service Provider to efficiently undertake the functions, especially in instances where the Service Provider performs services for multiple entities along with level of concentration of the outsourced arrangements with a single Service Provider.
- (c) Potential conflict of interest especially where the Service Provider operates within the same industry and mechanism to adequately address such conflicts.
- (d) Qualitative and quantitative financial and operational factors.
- (e) Reputation factors.
- (f) Insurance coverage by the Service Provider.
- (g) Ability of the Service Provider to adhere to high standard of care.

11.3.3 An AMC's Board of Directors and its management shall be responsible and accountable for effective due diligence and oversight of all delegation decisions, to the regulator, unit holders of the CIS and other stakeholders.

11.3.4 An AMC shall ensure that prior to appointment of a Service Provider, details of such an arrangement along with requisite disclosures, including AMC's assessment of the service provider's capacity to satisfactorily perform the delegated functions, are made in the offering document of a CIS for which the service provider is being appointed, subject to approval of the offering document by the Commission.

#### **11.4 Risk Management and Controls**

11.4.1 An AMC and its Board of Directors shall be responsible for the effective management of any risks arising from delegation of functions and shall at the minimum ensure the following:

- (a) Comprehensive due diligence of the nature, scope and complexity of the delegation of functions to identify key risks along with risk mitigation strategies.
- (b) Delegation is consistent with the overall business strategy and objectives of the AMC.
- (c) Periodic reviews of delegation arrangements and identification of new material outsourcing risks which arise or may arise.
- (d) Analysis of the impact of the arrangement on the overall risk profile of the AMC, and whether adequate internal expertise and resources are available to mitigate the risks identified. and
- (e) Analysis of the potential benefits of delegation against the weaknesses that may arise, including the impact of disruption or unexpected termination of the delegated services.

- 11.4.2 An AMC shall put in place adequate procedures to monitor and maintain overall control of the delegation arrangement in accordance with its Board's approved policy and ensure performance of AMC's primary obligation for the functions that are delegated.
- 11.4.3 An AMC shall ensure that its internal audit function conducts regular review of the functions performed by the Service Provider to ensure the continuous quality and integrity of the delegated functions.
- 11.4.4 An AMC shall have in place a contingency plan, approved by its board of directors, to mitigate any adverse impact arising from the discontinuity and disruption to the delegated function(s) in the event the service level agreement or part thereof is terminated, or the function cannot be performed by the service provider for any reason whatsoever. Such plan shall specifically cover detailed review of alternatives (i.e. whether the AMC will perform the function itself or appoint a new service provider).

## **11.5 Service Level Agreement (SLA) with Service Provider**

- 11.5.1 An AMC shall enter into a written and binding service level agreement with the Service Provider to formalize and document the delegation arrangement, which explicitly and carefully defines the roles, responsibilities and obligations of the Service Provider and the AMC.
- 11.5.2 An AMC shall ensure that the SLA adequately captures the nature and materiality of the delegation arrangement between the AMC and Service Provider and documents all its components. The terms and conditions governing the SLA shall at the minimum cover provisions dealing with: -
- (a) Firm and client confidentiality
  - (b) Payment arrangements with Service Provider
  - (c) Liability of the Service Provider to the AMC for unsatisfactory performance or other breach of the agreement
  - (d) Guarantees and indemnities
  - (e) Mechanisms to resolve disputes that might arise under the arrangement
  - (f) Business continuity provisions
  - (g) Conditions for termination of contract and exit strategies
  - (h) Maintenance of books, records and documents for the time period stipulated in the law, rules and guidelines.
- 11.5.3 An AMC shall ensure that the SLA stipulates provisions for proper reporting and monitoring mechanisms from the Service Provider to the AMC and trustee of the CIS, including the AMC's right and access to prompt information and records in relation to the CIS and its delegated functions.
- 11.5.4 An AMC shall ensure that the SLA contains appropriate provisions that empower the Commission to have ongoing access to books, records and documents, and it has the right of examination and inspection of the Service Provider, with or without notice.
- 11.5.5 An AMC shall ensure that the service level contract is duly reviewed by a competent legal counsel with regards to its legal effect and enforceability.

11.5.6 An AMC shall ensure that copy of service level agreement is shared with the Trustee of CIS within seven working days of entering into delegation agreement.

## **11.6 Confidentiality of Clients**

11.6.1 An AMC shall procure, from the Service Provider, a written undertaking to maintain the secrecy and confidentiality of the documents and information of clients that the service provider shall have access to, from any intentional or inadvertent disclosure to any unauthorized person(s).

11.6.2 An AMC shall ensure that any requirements pertaining to the confidentiality of clients' information particularly in terms of the delegated functions, as stipulated under any laws, rules, regulations or guidelines are adhered to at all times.

11.6.3 An AMC shall review the service provider's security policies, procedures and controls to ensure protection of confidentiality and security of clients' information.

## **11.7 Regulatory Obligations**

11.7.1 An AMC shall have the primary obligation, accountability and responsibility for complying with any regulatory requirements at all times notwithstanding delegation of any function to a Service Provider.

11.7.2 An AMC shall ensure that delegation of the functions does not in any way interfere with the ability of the AMC to fulfill its legal and regulatory obligations, or in efficiently performing any of its activities.

11.7.3 An AMC shall establish internal policies and procedures to ensure compliance with all relevant securities laws, regulations, guidelines, licensing conditions and rules and in this respect shall specifically ensure through service level agreement that the Commission has at all times-

- (a) Access to the books, records and documents of the service provider relating to the outsourced activities.
- (b) Be able to obtain copies of any books, records and documents whether from the AMC or the service provider. and
- (c) Be able to obtain promptly any other information concerning activities that are relevant for the performance of their regulatory oversight or supervisory functions.

11.7.4 An AMC shall ensure that appropriate measures are in place including specific provisions in the SLA that empower the Commission to:

- (a) Conduct examination and/or inspection at the premises of the Service Provider, by any person appointed in this behalf and to obtain copies of any report and finding made on the service provider in conjunction with the service performed for the market intermediary. and
- (b) Have access to the Service Provider and the AMC's records and documents, data or information regarding transactions, and any other information of the AMC given to, stored at or processed by the service provider, and the right to access any report and finding made

on the service provider.

- 11.7.5 An AMC shall procure a written undertaking from the Service Provider to the effect that the Commission shall, without any hindrance, reserve the right to conduct examination or inspection at the service provider's premises, including examining books and documents and having access to and obtain copies of the relevant books, records and documents as and when required.
- 11.7.6 An AMC shall submit following information in respect of its delegated functions to the Commission, within seven working days of entering into delegation agreement: -
- (a) Objectives for delegations of functions.
  - (b) Approval of the Board of Directors.
  - (c) Scope of activities that are being delegated and the detailed arrangement between the AMC and the service provider.
  - (d) Selection criteria of the service provider and the manner in which the AMC shall monitor the performance of the functions by the service provider.
  - (e) Evaluation of risks. and
  - (f) Copy of the duly executed service level agreement
- 11.7.7 The Commission may at any time require or direct an AMC to perform the delegated function(s) itself internally or transfer the function to another Service Provider in the event that the Commission is not satisfied, for any reason whatsoever, with the performance of the service provider or the arrangement between AMC and the Service Provider, without any compensation whatsoever due to the AMC or the service provider.

## **CHAPTER 12**

### **RISK MANAGEMENT AND COMPLIANCE**

#### **Risk Management and Control Guidelines for AMCs<sup>90</sup>**

The AMCs shall follow the below guidelines for establishment of Risk Management Systems and Controls. The purpose of these guidelines is to facilitate and guide the AMCs and provide a general framework of risk management from their perspective. These guidelines are flexible in the sense that AMCs can adapt them in line with the size and complexity of their business. Although, the risk management framework and sophistication of the process, and internal controls used to manage risks, depends on the size, nature and complexity of institutions activities. Nevertheless, there are some basic principles that apply to all institutions irrespective of their size and complexity of business and are reflective of the strength of an individual institution risk management practices. It is hoped that the guidelines will provide reference for AMCs in developing and assessing their own risk management systems.

#### **12.1 Preamble**

As per the clause (o) of sub regulation (1) of regulation 38 of NBFC and NE Regulation 2008. AMCs are required to establish and maintain sufficient Risk Management Systems and Controls to enable it to identify, assess, mitigate, control and monitor risks in the best interest of unit holders of the Collective Investment Schemes (CIS) under its management. In order to guide and facilitate the AMCs. the Securities and Exchange Commission of Pakistan (SECP) issues the following guidelines for establishment of Risk Management Systems and Controls in the AMCs.

The purpose of these guidelines is to provide a general framework of risk management from the AMC perspective. These guidelines are flexible in the sense that AMCs can adapt them in line with the size and complexity of their business. Although, the risk management framework and sophistication of the process and internal controls used to manage risks depends on the size, nature and complexity of institutions activities. Nevertheless, there are some basic principles that apply to all institutions irrespective or their size and complexity of business and are reflective of the strength of an individual institutions risk management practices. It is hoped that the guidelines will provide u useful reference for AMCs in developing and assessing their own risk management systems. Since AMCs differs greatly one from another in terms of size, complexity. product mix and client type, however, what is appropriate for one AMC may not be appropriate for another however, the objective of the compliance with these guidelines should be to comply with the basic principles.

#### **12.2 Introduction**

Risk management is the process of identifying, assessing and monitoring both enterprise and portfolio risks in order to minimize unanticipated losses and uncompensated risks and optimizes the reward/risk ratio. A risk management system encompasses the scope of risks to

---

<sup>90</sup>SECP Circular No. 15 of 2018 dated July 17,2018



be managed. the process/systems and procedures to manage risk along with the roles and responsibilities of individual involved in risk management function. The framework should be comprehensive enough to capture all risks a CIS is exposed to and have flexibility to accommodate any change- in business activities. An effective risk management framework includes: -

- (a) Risk Governance
- (b) Risk Management Process and Procedure
- (c) Portfolio Risk Measurement
- (d) Operational Risk Management

### **12.3 Risk Governance**

One of the keys to effective risk management is a risk governance structure that provide appropriate senior level oversight. segregation of functions. independent control groups and organizational checks and balances within a risk conscious culture.

Risk governance refers to the creation of checks and balances through organizational structure. Although risk governance structures will vary depending on the size and complexity of each organization. effective risk management generally requires:

- (a) Definition of Roles and Responsibilities.
- (b) Risk Management Policies:
- (c) Establishment of organizational checks and balances including an appropriate segregation of front/back and/or middle office functions:
- (d) Creation or a culture in which understanding and managing risk is everyone's responsibility.
- (e) Independent control groups. including, where possible: a risk manager reporting and/or having access to. CEO, Board, Executive Committee or the like. and
- (f) Senior management and board level understanding of risks. definition of risk tolerances. and setting of risk management and ethical tone.

#### **12.3.1 Definition of Roles and Responsibilities**

In order to fulfill the duty to identify, measure and manage the risks relevant to the Collective Investment Schemes, AMCs should define an organizational structure in which risk management roles and responsibilities are clearly defined including written policies and other procedures identifying the specific people within the organization who are authorized to approve various actions, make exceptions to various policies etc. Boards of Director have a responsibility to understand the major risks applicable to their firms and approve and periodically review the firm-wide risk management framework including how risk is to be identified, assessed, monitored and controlled. Senior management is responsible for overseeing the establishment and implementation of a risk management framework. including policies, procedures, systems & methodologies and for assuring that they are complied with. A management that considers the Risk attributable to new product and strategies before they are approved for first use and periodically thereafter, that sets risk tolerances and makes sure they are adhered to and receives information on an ongoing basis sufficient to enable it to anticipate problems and makes midcourse corrections is a management that is less likely to

encounter the types of problems including unanticipated losses, reputational and operational blow-ups, style drift and guideline breaches, that have caused losses to investors and buy-side firms in the past. Line managers should be responsible for complying with applicable policies and procedures and should be evaluated on how well they do so. Portfolio managers should be responsible for maintaining levels of portfolio risk consistent with representations made to clients and/or required by client guidelines. (Risk levels should be monitored with a view to preventing both insufficient and excessive risk-taking.) Operations personnel should be responsible for adhering to operational policies and procedures to control risk. Control groups should be responsible for measuring and monitoring risk and for conducting independent reviews of compliance with risk management and other policies.

### **12.3.2 Policies and Procedure**

The risk management process should be appropriately documented, formalized and traceable in the procedures and organizational rules of the AMC. The corresponding documents should be referred to as “risk management policy”. The risk management policy should be approved, reviewed on a regular basis and if necessary, adjusted by the Board or Directors. In particular, with respect to the organization and functioning of the process, the risk management policy should:

- (a) identify the personnel and unit(s) that are in charge of the different parts of the risk management process.
- (b) define the principles and methods for the periodic identification of the risks relevant to the Collective Investment Schemes.
- (c) set out the terms of the interaction between the risk and the investment management processes in order to keep the Collective Investment Schemes risk profile under control and consistent with the Collective Investment Scheme investment strategy· and
- (d) define the terms and frequency of risk management reporting to Senior Management and to the Board of Directors of the Company.

In addition to written policies and procedures, AMC must also adhere to investment guidelines disclosed in the Constitutive Documents of the Scheme.

### **12.3.3 The Risk Management Function**

AMCs should specifically identify the relevant unit, department or personnel in charge of carrying out the risk management tasks (the risk management function). The risk management function should be hierarchically and functionally independent from the operating units where appropriate and proportionate in view of the nature, scale and complexity of the Company's business and of the CIS it manages. For the risk management function to operate successfully, a degree of separation from the Company's front-office functions is required. Where it is not appropriate or practical to have a separate risk management function, the AMC should nevertheless be able to demonstrate that specific safeguards guarantee that risk management function is carried out with an adequate level of independence.

The risk management function should implement the risk management policy & procedures and should report directly to the Senior Management and submit a periodic report to Board of Directors. It should operate in accordance with adequate standards of competence and efficiency. An efficient risk management function requires adequate means and organization.

In particular, the risk management function should have the necessary personnel, with the skills, knowledge and expertise needed to be accountable for the responsibilities that are placed upon them. The risk management function should employ sound processes, professional expertise, adequate techniques and IT structures. The risk management function should be responsible for the identification, monitoring and measurement of risks and the implementation of the methods and procedures necessary for this purpose, including the drafting of the related documentation.

#### **12.3.4 Risk Management Committee (RC)**

It is generally a board level subcommittee constituted to supervise overall risk management functions of the AMC. The structure of the committee may vary in AMCs depending upon the size and volume of the business. Ideally, it should be headed by independent director and should constitute at least three directors. The terms of reference of this committee may cover the following: -

- (a) Developing and reviewing detailed risk management policies and guideline specifying risk tolerance of the AMC;
- (b) Ensuring that risk management system has the requisite tools to identify and manage all relevant risks including the credit, market, liquidity and operational risks;
- (c) Ensuring that risk management function has the capacity to obtain timely information necessary to apply risk management policies and procedures which allow for the accurate and timely measurement and aggregation of risk exposures, and
- (d) To submit its recommendations to the board of directors together with the explanation or their purpose and likely effects.

#### **12.3.5 Reporting to the Board of Directors and the Senior Management**

The AMCs should implement and maintain efficient internal reporting by the risk management function. The terms, contents and frequency of this reporting should be defined in the risk management policy. The risk management function should report regularly to the Senior Management and if necessary to the heads of the different operational departments, highlighting the current level of the risks relevant to the CIS and outlining any actual or expected breaches to their limits to ensure prompt and appropriate action is taken. Periodic written reports should be submitted to the Board or Directors, providing an in-depth analysis of the consistency between the actual risks and the risk profile of the CIS. The risk management function should periodically report to the senior management about the results of the controls regarding the risk profile of the CIS, the overall adequacy of the risk management and the measures taken to address any deficiencies.

#### **12.3.6 Segregation of Function**

AMCs should be organized in a manner that provide appropriate checks and balances. This necessitates the segregation of control functions from line functions as well as the segregation of front office functions from middle/back office functions to ensure independent verification or trade details and valuations etc.

Depending on the size and complexity of the organization, as well as its culture, this may necessitate dividing responsibilities between a front, middle and back office or in the

alternative, front and back office only. From control perspective, the existence or nonexistence of a middle office is not particularly important. What is important is that the front office person responsible for bringing in new clients and/or entering into transactions. i.e., the marketer, portfolio manager or trader, is not the person (or the subordinate or superior or the person) responsible for determining the acceptability of the client or counterparty from a credit perspective or for checking and entering full trade details, confirming, comparing and settling the trade, valuing the trade initially and on an ongoing basis, monitoring the risks attributable to the transaction (consistent with the risk measurement system that has been established). and determining whether it is acceptable to exceed established limits without participation of various control groups.

Appropriate segregation of functions should require that trades be verified, confirmed, compared, valued, etc. by people other than traders and that independent checks and balances exist at every stage of the process to prevent intentional or unintentional misstatements and other errors to remain unresolved.

### **12.3.7 Understanding and Managing Risk is Everyone's Responsibility**

While designated risk management professionals play a significant role in managing and controlling risk, risk management is much more than policing and enforcing limits. Viewed in the broadest sense risk management is the responsibility of all. Employees at every level should be cognizant of risks and willing to do their part to make sure those risks within their sphere of responsibility are managed in a manner that is consistent with the firm's policies and disclosures provided to clients. Even the most detailed and sophisticated risk management programs are likely to be not effective in the absence of a risk conscious culture.

### **12.3.8 Establishment of a Risk Conscious Culture**

One of the most important risk controls an AMC can have is a risk conscious culture in which risks are well-understood, tolerances are clearly defined and risk/return tradeoffs are considered. Creating a risk conscious culture requires conscious effort by senior management. In addition to determining and communicating their risk tolerances, senior managers set the ethical and fiduciary tone for the organization. Whether or not this necessitates the adoption of a formal or a less formal ethics policy but equally rigorous articulation of values. Effective risk management involves having senior management define both the risk profile and values of the organization and communicating them to employees at the outset of the employment relationship and periodically thereafter and require that those values be adhered to at all times by themselves and their employees.

### **12.3.9 Internal Audit**

An AMC should have a process (for example, an audit committee of the board) that approves the audit program. Internal audit should provide independent assurance to the board, its audit committee or an appropriate senior manager of the integrity and effectiveness of the systems and controls in place for risk management and should make recommendations where appropriate. Internal audits should be conducted to review compliance with the overall risk management policies and procedures. AMCs should establish a system of independent ongoing assessment of its investment risk management processes and the results should be

communicated directly to the board of directors, its audit committee, and/or senior management according to their materiality. Internal auditors should have the requisite level of training and expertise in investment risk management in order to be effective.

#### **12.3.10 Compliance**

The board of directors and senior management should ensure that a named individual is responsible for all compliance matters and that individual should be independent of the risk-taking units. The AMC should have a process for the dissemination of compliance information, ensuring that it has up-to-date staff trainings and that regular compliance reports are produced. Further, it should ensure that there is a procedure to ensure the monitoring of compliance with the overall investment strategy, policies and procedures, legal and regulatory compliance requirements, and the notification of compliance breaches and senior management response and follow up. Senior management and the board of directors should receive regular, timely reports on compliance. A proposed investment decision should have adequate documentation demonstrating that the decision is in compliance with the investment policies and the risk management framework,

### **12.4 Risk Management Process and Procedure**

The risk management procedures should ensure that the actual level of the risks incurred by the CIS remain consistent with its risk profile as defined by the Board of Directors in the Constitutive Documents. The risk profile of the CIS should reflect the level of the identified relevant risks that arise from its investment strategy, as well as their interaction and concentration at portfolio level. Risk management procedures can be understood as the set of actions aimed at:

- (a) identifying and measuring the relevant risks.
- (b) assessing their consistency with the CIS risk profile.
- (c) fostering through the appropriate reporting channels the adoption of remedial measures in case of deficiencies, and
- (d) monitoring the efficacy of the action taken.

#### **12.4.1 Identification of Risk**

The risk management process should assess and address all risks relevant to the CIS. Relevant risks should be identified among all possible risks incurred by the CIS, according to the methods and principles defined by the risk management policy of the AMC. The risk management process should regard as relevant the material risks that stem from the investment objective and strategy pursued by the CIS, the trading style adopted by the managers and the valuation process. The identification of risks relevant to the CIS should be conducted under the responsibility of the risk management function, whose advice should therefore help the Senior Management provide a meaningful description of the risk profile of the CIS. However, this identification process should not be a static exercise but, on the contrary, should be periodically revised to allow for possible changes to market conditions or the CIS investment strategy. The risk management function should carry out an appropriate identification of the material risks relevant to the CIS without being bound by the use of a specific risk management model (techniques, methods and technical instruments) within the AMC.

#### 12.4.2 Risk limit

The risk management policy or the AMC should provide for each CIS a system of limits concerning the measures used to monitor and control the relevant risks. These limits should be approved by the Board of Directors and be consistent with the risk profile of the CIS. The limit system should refer to the risk profile of the specific CIS and should set appropriate limits for all potentially relevant risk factors. That is, it should cover all risks to which a limit can be applied and should take into account their interactions with one another. Without prejudice to the limits imposed by the regulations an AMC should define for each CIS the limits that should be complied with by the CIS to maintain consistency with the chosen risk profile. The risk limit system should be consistent with the CIS' investment strategy. The self-defined risk limit system provides for an appropriate way to manage and control risk and should be respected as part of the ongoing risk management process. The AMC should ensure that every transaction is immediately taken into account in the calculation of the corresponding limits. The limit system should be clearly documented and records should also be kept of cases in which the limits are exceeded and the action taken.

#### 12.4.3 Exception Reporting

The risk management policy should define procedures that, in the event of breaches to the risk limit system of the CIS, result in a prompt correction of the portfolio and provides timing of this. In order to achieve this objective, the process should be designed to trigger a prompt reaction from fund managers if the CIS target risk limit is breached. In order to ensure an efficient rebalancing of the portfolio in these circumstances, the risk management process should employ risk management tools and measurement techniques which are able to provide precise information about the most relevant risk factors to which the CIS is exposed. The risk management process should allow warnings to be generated so that appropriate corrective measures may be taken on a timely basis to prevent breaches. While ongoing warnings should primarily relate to the imminent breach of the predetermined risk limits as set by the risk limit system of the CIS, exceptional warnings may result instead from specific risk assessments addressing possible forecast scenarios that result from a particular concern. In this context, stress tests may contribute to the generation of exceptional warnings which should be adequately taken into account within the investment decision-making process.

#### 12.4.4 Monitoring of the Risk Management Process

The Board of Directors should receive on a periodic basis written reports from the risk management function concerning:

- (a) the adequacy and effectiveness of the risk management process.
- (b) any deficiencies in the process with an indication of proposals for improvement. and
- (c) whether the appropriate remedial measures have been taken.

The risk management function should review the adequacy and effectiveness of measures taken to address any deficiencies in the risk management process. The risk management process should be subject to appropriate internal or external independent oversight. The risk management function should periodically assess, and consequently, report to the Board of

Directors, the adequacy and efficiency of the structures, procedure and techniques adopted for risk management.

## **12.5 Investment Risk Management**

### **12.5.1 Market Risk**

Market risk includes:

- (a) interest rate risk: risk of losses resulting from movements in interest rates, to the extent that future cash flows from assets and liabilities are not well matched, movements in interest rate can have an adverse economic impact.
- (b) equity and real estate risks: risk of losses resulting from movements or market values of equities and other assets, and
- (c) currency risk: risk of losses resulting from movements in exchange rates, to the extent that cash flows, assets and liabilities are denominated in different currencies, currency movements can have an adverse impact.

An AMC should be able to measure its market risk exposure across risk factors (i.e. interest rate, equity and currency) and across the entire portfolio. The AMC should set appropriate metrics to measure exposure to market risk factors.

### **12.5.2 Liquidity Risk**

Liquidity risk is another key element of market risk that requires significant attention. There are two key components of liquidity risk:

- (a) The liquidity of individual instruments and the implication of such liquidity for pricing, and
- (b) Any mismatch between the liquidity of the portfolio versus the liquidity provisions offered to investors.

An AMC should establish liquidity risk management policies and procedures that form an integral part of their broader risk management framework. As part of these policies and procedures, AMC is expected to continuously monitor their CIS' liquidity profiles and ensure that appropriate levels of liquidity are maintained in the CIS taking into account the liquidity available in the underlying asset market(s), redemption flows or other liabilities. AMC should also make adequate contingency funding plan for meeting liquidity requirement in case of contingency. AMC should also put in place and periodically test contingency funding plans with an aim to ensure that any applicable liquidity management tools can be used where necessary, and if being activated, can be exercised in a prompt and orderly manner.

### **12.5.3 Credit Risk**

There are two types of credit risk that are relevant to AMCs:

- (a) Issuer credit risk is the credit risk attributable to individual securities, and
- (b) Counterparty credit risk is the risk attributable to the downgrading and/or insolvency of a counterparty.

In dealing with issuer credit risk, asset managers typically rely on either rating agencies' assessment where available or their own internal rating systems based on a combination of internal and external analyses. The degree to which independent issuer credit analysis is appropriate differs from firm to firm, depending on the nature of the instruments traded, size, resources and other factors. AMC should conduct independent assessment of credit worthiness of the counter party while taking credit exposure.

Counterparty credit risk is the risk of loss attributable to changes in the ability of counterparties to meet their financial obligations. Exposure to individual counterparties may be present in many different parts or an organization. For example, an AMC may trade, do repos and securities lending with and buy debt and equity issued by a counterparty with whom it has outstanding derivatives transactions. AMC shall develop a comprehensive approach to manage counterparty credit risk and consideration should be given to tracking this risk on an aggregate basis.

#### **12.5.4 Concentration Risk**

The risk measurement process should allow adequate assessment of the concentration and interaction of relevant risks at the portfolio level. Concentration risk can affect a portfolio in several ways. A concentrated, undiversified portfolio has unique risks inherent in its structure. In addition, large concentrations in individual instruments can make liquidation at mark-to-market prices difficult if those mark-to-market prices are based on typical transaction size and do not reflect the size of the position. As a result, mark-to-market values can differ significantly from liquidation values.

In addition to concentration risk at the portfolio level, AMCs face concentration risk across portfolios with respect to both individual investments and strategies. Excessive concentrations across portfolios and excessive exposure to particular factors (for example value vs. growth) have the potential to put a AMC at risk and need to be tracked and understood.

#### **12.5.5 Leverage Risk**

Leverage can be defined in a variety of ways. The most commonly used definitions involve borrowed money. However, instruments such as options have 'embedded leverage' and instruments such as futures create leverage due to the way they are margined. One common definition of leverage decomposes every instrument into its effective notional long and short components. The total value of the longs plus the total value of the shorts is then divided by the net asset value to compute leverage. Regardless how leverage is defined, it is important from a risk management perspective that the incremental risks to a portfolio attributable to leverage should be understood, tracked and controlled.

#### **12.5.6 Investment Risk Should be Measured and Monitored**

Regardless whether risk tolerances have been selected by the client or asset manager, various metrics should be considered to measure and monitor investment risk. Some common metrics include standard deviation, tracking error, expected shortfall, downside semi-standard deviation and value at risk (VaR). While each metric is useful, none tells the entire story. Thus, it is useful to employ a combination of metrics. Measuring risk can be done on either



an ex post or ex ante basis as both can be important to a robust approach. Where back-testing is used expected returns, risks and correlations should be updated and reassessed based on comparisons of risk and returns to what back-tests have forecast.

#### **12.5.7 Performance Measurement and Monitoring**

Performance analysis is an important facet of investment risk management. Every portfolio should have a defined benchmark or other objective and should be monitored against that benchmark or objective. Performance attribution should be undertaken to isolate the factors that have contributed to under or over performance.

#### **12.5.8 Techniques and Tools of Risk Management**

The risk management policy of AMC should specify the techniques and tools that are deemed suitable to measure the relevant risk factors attached to the investment strategies and management styles adopted for each CIS. Measurement techniques include both quantitative measures as regards quantifiable risks and qualitative methods. Ongoing risk management operations involve the computation of a number of quantitative measures (the risk measurement framework), more or less sophisticated in terms of meaning and methodology, which generally aim to address the effects of market risk, credit risk (including issuer risk and counterparty risk) and liquidity risk. The computation of these {more or less sophisticated} measures is carried out by IT systems and tools, which may need to be integrated with one another or with the front-office and accounting applications. Consequently, while the choice of the risk measurement framework should depend primarily on the characteristics of the investment strategies of the CIS under management (higher-risk profile CIS may need more complex measures than plain low-risk profile ones), this may also partly reflect the diversity in size and complexity of the business and organization or the AMCs. However, AMCs should employ sufficiently advanced risk measurement techniques, being expected to keep up to date with and consider the use of leading market solutions in the interests of investors. If CIS invest in structured products their multiple risk components should be appropriately identified and managed. When quantitative measurement of the effects of some risk factors is not possible, or produce unreliable results, AMCs may consider integrating and adjusting their figures with elements drawn from a variety of sources, in order to obtain a comprehensive evaluation and appraisal of the risks incurred by the CIS. This approach is also likely to apply to the assessment of non-quantifiable risks, such as operational risk.

#### **12.5.9 Stress Testing**

Stress tests are usually meant to capture the possibility of rare and severe losses which could occur during market shocks and which are unlikely to be measured by the models as they tend to follow structural breaks in the functional relationships between market variables (sudden shifts of crucial model parameters). Stress tests should cover all quantifiable risks which affect to a material degree, the value of the CIS with particular attention given to those risks which are not represented with sufficient accuracy by the risk models used. Such risks might include, for example, unexpected changes, to price correlations or to asset (or even market) liquidity. Stress test may reflect subjective scenario hypotheses based on evidence concerning trading and market conditions (that may relate to either specific securities or an entire portfolio) during past periods or turmoil. However, such scenario should not merely mirror historical

conditions. but should elaborate on the assumption that similar dynamics could affect the risk factor arising from the CIS outstanding exposures. When the investment strategy of the CIS is based on specific trading or portfolio models and algorithms the risk management function should be adequate to assess and control their use. AMC should conduct ongoing liquidity assessments in different scenarios. which could include fund level stress testing. Liquidity stress testing can be used by AMC to assess the liquidity characteristics of the CIS's assets relative to the CJ S's anticipated redemption flows under stressed market conditions and to tailor the CI S's asset composition, liquidity risk management, and contingency planning accordingly.

The performance and oversight of stress testing should be sufficiently independent from the portfolio management function. AMC should maintain appropriate documentation of stress resting and should be able to provide the relevant information to authorities.

#### **12.5.10 Risk, Measurement and Asset Valuation**

Valuation risk is a subcomponent or investment risk that is key for asset managers because inaccurate valuations result in incorrect NAVs, potentially causing unfair treatment to one set of investors versus another, and possibly inflating manager incentive compensation, investors who buy in at inflated prices are unfairly redeemed at deflated prices are unfairly disadvantaged. Fair and accurate valuations are essential.

The risk management function should provide appropriate support to the valuation process concerning exposures to illiquid assets, structured securities and complex derivatives. If robust market prices are available. the risk measures should be computed relying on a complete and adequate time series of marked-to-market values. However, when measuring risks of illiquid assets. risk managers should thoroughly check the robustness of their estimates, testing the data used for the computation against the valuations of actual comparable trades. Assumptions and models underlying pricing of illiquid. structured financial instruments (whether or not they embed derivatives) or complex derivatives should be consistent with the risk measurement framework used by the AMCs. These should be maintained and revised over time accordingly (using back-testing etc.).

A valuation committee can provide important supervisory oversight or the AMC's procedures for valuing portfolio instruments, a valuation committee is often responsible for:

- (a) approving overrides of prices.
- (b) determining what valuation methodology is appropriate in the case of securities for which there me no readily available market quotations, or for which special circumstances make the use of readily available market quotations inappropriate:
- (c) approving models and the assumptions lo be used in connection therewith. and
- (d) determining fair value for securities for which none of the methods set forth above is deemed to be appropriate.

## **12.6 Operational Risk Management**

In addition to the risks attributable to an asset manager's governance and investment risk management, there are various types of operational risk that need to be addressed. Set forth below are various principles that apply to the management of operational risk.

### **12.6.1 Operational Risk Measurement and Monitoring.**

Operational risk includes all aspects of errors and mistakes that can be made in the ordinary course of business and well as in a disaster. It is important to have adequate monitoring and tracking of all elements of back office operations that can go wrong. This includes foils, reconciliation differences, customer complaints, guideline breaches, systems issue etc. The key to effective operational risk management is to create a process that tracks the various elements of operational risk over time, identifies trends that could be an early warning sign of trouble and to implement an exception/escalation process that ensures that problems that are significant, large, aged or growing are dealt with at increasingly higher levels of management. Manual processes are generally more likely to cause operational problems than automated ones which have been thoroughly tested. Therefore, they should receive a heightened degree of scrutiny. Likewise, transactions that need to be forced fit into a system need extra scrutiny.

### **12.6.2 Availability of Adequate Systems, Processes and Resources**

Advances in technology have resulted in the widespread availability of industry standard and proprietary systems for quantitative research, portfolio management, portfolio risk measurement, sales support, trading, settlement and record-keeping. The availability of such tools, while not a substitute for good risk management and oversight, enhances asset managers' ability to track and value positions, allocate trades among various clients, measure and monitor risks, improve guideline compliance, control conflicts etc.

Conversely, the lack of adequate systems and processes is often a flashing red-light indicative of major risk issues. For this reason, it is appropriate for every AMC to review on a periodic basis the adequacy of its systems, processes and resources, taking into account the nature of its products and businesses, size, customer type and other relevant factors.

### **12.6.3 Management of Model Risk**

Asset managers rely on models for investment decisions, portfolio valuations, measuring and/or guiding risk mitigation, tracking limits & guidelines, analyzing business strategies, etc. AMCs should deal appropriately with the possible vulnerability of their risk measurement techniques and models (model risk). The quality of risk model-based forecast should be demonstrably assessed. Essentially, the risk management function should run documented tests to verify that model-based forecasts and estimates correspond, with the appropriate confidence level, to the actual values of the relevant risk measures (back-testing). Back-testing should be carried out separately for every technique used in the risk measurement framework: tests should be run prior to inception (model calibration and internal validation) and, subsequently, on an ongoing basis to check how the model's viability and robustness hold up over time. AMCs should also assess in advance the validity range, market conditions and any inherent or assumed limits of their risk measurements, which generally result from the

assumptions underlying the models or the estimation of their parameters. This assessment should be carried out, if needed, through additional diligences which include stress tests.

#### **12.6.4 Back up, Disaster Recovery and Business Continuity Plan**

AMCs should have in place contingency and business continuity plans to ensure their ability to operate as going concerns and minimize losses in the event of severe business disruption. This should cover: -

- (a) Offsite backup of key systems and information.
- (b) Details of key suppliers and service providers in case of disaster.
- (c) Details of availability of necessary redundancies including infrastructure redundancies as well as operational, human capital and human-resource related issues such as transportation, medical care, accommodating extended absences, law enforcement and insurance issues, among others.

#### **12.6.5 Effective Records Management**

More information and records are created and stored today than ever before. As a result, it is becoming increasingly important for AMCs to establish and maintain an effective records management program that addresses the creation, identification, retention, retrieval, and ultimate disposition of records. In creating and administering such programs, firms may want to consider mechanisms necessary to comply with any preservation obligations resulting from litigation or governmental examinations or inspections. Factors contributing to an effective records management program include:

- (a) realistic and practical policies that are tailored to the particular organization.
- (b) employees being aware of and trained regarding their responsibilities.
- (c) periodic testing of the program to ensure that it is working as intended. and
- (d) revising the program as necessary to adjust to changing circumstances and regulatory environment.

#### **12.6.6 Effective System Security**

AMCs typically are in possession of confidential client, employee and other sensitive information. In addition to having a fiduciary duty to maintain the confidentiality of such information, in many instances they are also subject to privacy and secrecy laws which require not only the safeguarding of such information but also, timely notification of breaches of security. In light of the business, legal and reputational risks associated with breaches or security, maintaining effective information security is critically important. Among other things, this includes:

- (a) Physical Security - i.e. the focus on restricting access to building infrastructure & office space and the safety of personnel. General Controls include physical barriers (security guards, turnstiles etc.) and ensuring that proper background / reference checks are performed for all personnel and third-party service providers. Application controls include door locks, surveillance cameras and environmental monitoring.

- (b) Network Security - i.e., protecting the corporate network from malicious software attacks, the mass loss of data, and unauthorized access by external parties. General controls include internet firewalls, proxy servers, content filters, anti-virus, anti-Spam, software patch management, remote access security and the continuous monitoring of the network perimeter. Application controls include multi-factor authentication and encryption.
- (c) Information Security - i.e. preserving the confidentiality and integrity of information as it is collected/ created, stored, transported, shared / distributed, and retained or destroyed. Where feasible information and systems should be classified and access should only be granted on a need to know basis. General controls include information security policy, awareness training, disposal procedures, access and identity management, and change problem, and quality management. Application controls include encryption, event logging and the ongoing control testing of high risk information and systems.

#### **12.6.7 Fiduciary Responsibilities**

Fiduciaries have a legal obligation to act in the best interest of their clients. To treat all clients fairly and to meet a very high standard of care. For AMCs acting in a fiduciary capacity, it is important that the nature and extent of their fiduciary duties be clearly understood by employees and clients alike. To accomplish this, fiduciary obligations should be clearly spelled out in applicable investment or management agreements and other legal documentation, and understood by all relevant parties. Equally important, employees need to be cognizant of their fiduciary obligations and to consider those obligations in their ongoing decision-making. If a particular action or decision would benefit one investor or class of investors over another, or other conflicts of interest exist, such action, decision or conflict should be considered from a fiduciary risk perspective and appropriately disclosed and/or resolved. The incorporation of a fiduciary mindset into a firm's culture is itself a risk control.

#### **12.6.8 Risk Pertaining to Subadvisors, Custodians and Outsourced Service Providers**

AMCs often rely on third parties including subadvisors, custodians and various types of outsourced service providers who perform operational, accounting, recordkeeping and other types of services. In utilizing the services of such third parties, it is important from a risk management perspective to keep in mind that asset managers have ongoing fiduciary obligations to their customers even though they have delegated certain of their responsibilities to others. It is therefore critical to perform careful reviews of the capabilities of third parties at inception of relationships and on an ongoing basis and to review information provided by third parties for completeness, balance and accuracy in order to be able to determine whether such third parties meet the risk management, credit, operational, legal and other relevant standards of the reviewing company with respect to the function they are performing. It is not sufficient to merely ascertain that a prospective subadvisor or provider of outsourced services has in place risk management controls; rather, a qualitative judgment as to their sufficiency needs to be made. Where feasible, on site visits to subadvisors, custodians and other key service providers should be part of the initial and ongoing due diligence.

### **12.6.9 New Products and Strategies Risk**

The asset management industry is constantly evolving and new products are being developed. Written policies regarding new product development and launch can reduce risk. The approach that can be used is a new product committee/ Management Committee that typically includes representatives of the front office, operations, systems, risk management, legal, and financial control. Each member is responsible for identifying issues raised by the product within his/her area of responsibility and making sure that these issues are satisfactorily resolved in advance of approval and first use of the product. The decision whether to trade a new product and how to address whatever risk, legal, systems, operations or other issues it raises should be considered and resolved prior to launch of the product.

#### **12.6.10 Reputation Risk**

In fiduciary businesses, reputation is critical. History has shown that the harm caused by reputational risk can be grossly disproportional to the injury caused to investors by matters giving rise to that risk. Sources of "reputational" exposures are present in virtually every facet of an AMC's business and every business/client relationship an AMC enters into. These issues must be evaluated on a continuing basis. To prevent problems from developing, senior management must articulate, adhere to (and require others to adhere to) clear ethical standards and create a risk conscious culture. Asset managers must always remember that they are fiduciaries. To the extent a written ethics statement is in place, it should address how key conflicts are handled so as to control conflicts between the interests of multiple clients and the interests of the firm and its employees.

## **CHAPTER 13**

### **MERGER OF OPEN-END SCHEMES**

#### **Requirements for Approval of Merger of Open-End Schemes<sup>91</sup>**

Regulation 58(1)(m) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the "Regulations") provides that no NBFC shall, inter alia, merge Collective Investment Schemes without prior approval of the Securities and Exchange Commission of Pakistan (the "Commission"). The AMC(s) shall complete the requirements as provided herein for merger of Open-End Schemes:

#### **13.1 Application to the Commission under Regulation 58(1)(m)**

The application for considering the approval of Scheme of Merger of the schemes shall be submitted by the concerned AMC, or jointly signed by both AMCs in case of merger of the schemes of different AMCs, to the Commission under Regulation 58(1) (m) along with the following documents/information:

- 13.1.1 Certified copy of the resolution passed by the board of directors of concerned AMC approving the Scheme of Merger.
- 13.1.2 NOC to the Scheme of Merger by the respective trustee of the schemes.
- 13.1.3 Approval from other concerned authorities, as may be required.
- 13.1.4 Details of assets (including portfolio detail) and liabilities of the respective schemes along with details of the provisioning held if any, as of the date immediately preceding the date of application.
- 13.1.5 Copy of the notice published in the newspapers for calling the meeting of the unit holders indicating time, place and objective of the meeting.
- 13.1.6 An undertaking by the AMC that it has disclosed all material facts regarding Scheme of Merger to its unit holders and the trustee.
- 13.1.7 Certified copy of the minutes of the meeting of unit holders of each scheme called for the approval of the Scheme of Merger. The said minutes shall be signed by concerned AMC as well as trustee of the schemes.
- 13.1.8 Copy of a complete set of the information/documents as placed before the unit holders of the concerned schemes in their respective meeting.
- 13.1.9 Confirmation from the AMC that the requirements as laid down herein have been duly complied with and no other law has been violated. and
- 13.1.10 Any information/document as may be required by the Commission to consider the application

---

<sup>91</sup>SECP Circular No. 20 of 2009 dated June 23, 2009

for approval of Scheme of Merger.

### **13.2 Requirements for holding the meeting of unit holders for approval of the proposed Scheme of Merger**

The following requirements shall be observed for holding the meeting of the unit holders:

- 13.2.1 Notice of the meeting for considering the proposed Scheme of Merger of schemes indicating time, place and objective of the meeting shall be given to every unit holder of each of the scheme and shall also be published in one daily newspaper of wide circulation across Pakistan.
- 13.2.2 Meeting of unit holders of each of the scheme for considering the proposed Scheme of Merger shall be held within five working days from the close of register for determining eligibility of unit holders for participation in the meeting.
- 13.2.3 Proposed Scheme of Merger, statement of material facts and other pertinent information/documents shall be made available to the unit holders.
- 13.2.4 Trustee of the concerned scheme shall attend the meeting of unit holders.
- 13.2.5 Proposed Scheme of Merger shall be placed, in the meeting, before the unit holders of each scheme separately along with the following:
  - (a) Net Asset Value per unit (NAV) along with the details of assets (including portfolio detail) and liabilities of all the schemes being considered for merger as of the date immediately preceding the date of the meeting.
  - (b) Provisioning policies of the schemes being considered for merger and the details of provisioning held, if any, for all the schemes as of the date immediately preceding the date of meeting.
  - (c) Swap Ratio calculated on the basis of the NAV of the schemes as of the date immediately preceding the date of meeting.
  - (d) Date for calculating the actual Swap Ratio (based on NAV of the concerned schemes) to be used for merger of the schemes.
  - (e) Present asset allocation of all the schemes being considered for merger i.e. before the merger and effect of merger on the asset allocation of the surviving scheme i.e. post-merger asset allocation.
  - (f) Constitutive Documents of the surviving scheme. and
  - (g) Statement of material facts including, investment policy and objective of surviving scheme, type of units to be issued, any restrictions on unit holders, post-merger management fee, applicable front-end and back-end load, treatment of un-amortized cost, other charges etc.
- 13.2.6 Scheme of merger shall be approved by a resolution passed by a majority of unit holders representing three fourth in value of the total outstanding units of the concerned scheme at a



meeting called for the purpose. It is clarified that unit holder of an open-end scheme may cast vote on resolution of merger of open-end scheme by physical presence in the meeting or through proxy or by post. Further, any requirements prescribed under Circular No. 19 of 2012 regarding “procedure for convening meeting of the unit holders of Open End and Close Collective Investment Scheme” which are in addition to the requirements of circular No. 20 of 2009 are also applicable in terms of meeting for merger of open-end schemes, except for clause 26 of circular No. 19 of 2012.<sup>92</sup>.

### **13.3 Other requirements**

The following other requirements shall need to be observed:

- 13.3.1 The schemes to be merged shall neither redeem nor issue units after the close of register for determining eligibility of unit holders for participating in the meeting for considering the proposed Scheme of Merger. Subsequently, if approval by the requisite majority of the unit holders of each scheme has been granted to the proposed Scheme of Merger, issuance and redemption of units shall remain suspended till the effective date of merger. In case the proposed Scheme of Merger has not been approved by the requisite majority of unit holders of any concerned scheme, the issuance and redemption of units shall be resumed.
- 13.3.2 In case, NAV of the schemes for which merger has been approved by the unit holders, fluctuates and affects the Swap Ratio by 15% or more prior to the effective date of merger when compared to Swap Ratio as of the date immediately preceding the date of meeting of unit holders, the Scheme of Merger based on the latest NAVs shall again be placed before the unit holders of the concerned schemes.
- 13.3.3 No fee and expenses relating to the merger shall be charged to any scheme.
- 13.3.4 Where the merger has been approved by the Commission, the AMC on behalf of the surviving scheme shall submit a report on the status of such scheme along with the following:
  - (a) Details of assets (including portfolio detail) and liabilities of the surviving scheme along with statement of unit holders' fund as of the effective date of merger.
  - (b) Post-merger asset allocation of the surviving scheme. and
  - (c) Certificate from the auditors of the respective scheme that NA V considered for calculating Swap Ratio for merger has been determined in line with the requirements of Constitutive Documents of the concerned schemes and the Non- Banking Finance Companies (Establishment & Regulation) Rules, 2003 and the Regulations.

---

<sup>92</sup> SECP Email dated June 03, 2013

## **CHAPTER 14**

### **PROCEDURE FOR UNIT HOLDERS MEETING**

#### **Procedure for Convening Meeting of The Unit Holders of Open End and Close End Collective Investment Schemes<sup>93</sup>**

The Regulation 41(q) of Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the "Regulations"), empowers the trustee of an Open-End Scheme and Close End Scheme ("CIS" or "scheme") to call a meeting of unit holders, in such manner as specified by the Commission through circular: -

- (a) Whenever required to do so by the Commission in the interest of the unit holders. or
- (b) Whenever required to do so as per the requirements of the Regulations.

Therefore, in addition to the requirements as stipulated by the Regulations for the meeting of unit holders, the following procedure shall be followed for convening meeting of the unit holders of a scheme.

#### **14.1 General**

14.1.1 An AMC managing the scheme shall be responsible for conducting and chairing the meeting of the unit holders. The trustee of a scheme shall attend every meeting of unit holders and ensure that all the requirements as specified by the Regulations for convening the meeting of unit holders are complied with. The unit holders of a scheme may cast vote on a resolution by physical presence in the meeting or through proxy or by post.

#### **14.2 Notice of Unit Holders' Meeting**

14.2.1 An AMC shall send through registered post or courier service, notice of meeting of unit holders to each unit holder at his / her registered address along with Proxy Form and a voting paper (Annexure-VIII) at least 7 working days prior to the date of such meeting. Such notice of the meeting shall also be published by the AMC in one issue each of daily newspaper in English and Urdu language having circulation all over Pakistan.

14.2.2 In case of joint unit holders, the notice shall be sent to the address of the joint holder whose name appears first in the record with the AMC and / or its Registrar / Transfer Agent.

14.2.3 The notice of the meeting shall specify complete information about unit holders' meeting such as date / time / venue of the meeting, purpose of the meeting (statement of material facts and other pertinent documents) and requirements for attending unit holders' meeting and voting mechanism. Notice shall also be sent by the AMC to the trustee and the Commission.

14.2.4 The notice of the meeting shall also include a postage pre-paid envelope for facilitating the communication of the assent / dissent of the unit holder(s) to the resolution by post. The self-addressed envelope shall bear the complete address of the Trustee (with the name of the CIS)

---

<sup>93</sup>SECP Circular No. 19 of 2012 dated June 11, 2012

as scrutinizer.

### **14.3 Proxy Forms**

- 14.3.1 Unit holders of CIS shall submit filled and signed Proxy Form to the AMC along with attested copies of their CNICs. Proxy holder may not necessarily need to be a unit holder of the concerned CIS.
- 14.3.2 Proxy Form shall be witnessed by two persons with their names, addresses and CNIC numbers duly mentioned on the proxy form.
- 14.3.3 In case of other than individuals, the resolution of Board of Directors / power of attorney with specimen signature(s) of authorized person shall be submitted to the AMC along with proxy form.
- 14.3.4 Proxy forms must be received by the AMC one day prior to the meeting.
- 14.3.5 AMC shall affix receiving stamp (mentioning date and time) and signature on each proxy form.
- 14.3.6 Proxy form shall not be accepted in case the unit holder has opted to vote by post.

### **14.4 Voting by Post**

- 14.4.1 Unit Holder(s) desiring to vote by post, instead of physical presence in the meeting may fill up and complete the voting paper (**Annexure-VIII**) and send it to the Trustee.
- 14.4.2 Voting paper shall be completed and signed by the unit holder(s) as per specimen signature(s) provided to the AMC/ its Registrar/ Transfer Agent.
- 14.4.3 Original voting paper should reach the trustee of the CIS not later than one day prior to the meeting for consideration by the trustee.
- 14.4.4 The Trustee shall compile the assent/ dissent to the resolution received by post mentioning the particulars, i.e. names, folio numbers, number of units held by the unit holder, etc. The Trustee shall finalize its report before the commencement of the unit holders' meeting.

### **14.5 Proceedings of Unit Holders' Meeting**

- 14.5.1 Only those unit holders shall be eligible to attend and vote at the meeting whose names appear in the unit holders' register of the concerned scheme on the date immediately preceding the date of the unit holders' meeting.
- 14.5.2 An AMC or Registrar/ Transfer Agent ("R/TA") shall record attendance of all the unit holder's / proxy holders present in the meeting with complete list of unit holders of the scheme and specimen signatures of unit holders or any officer of corporate unit holders.
- 14.5.3 After taking attendance, an AMC or its R/TA shall provide one Voting Paper (Annexure-B) to every unit holder / Proxy holder for his / her filling and signing to cast his / her vote on the

proposal. In case of joint holder(s) only one voting paper shall be issued and in case the meeting is attended by more than one joint holder, then the person whose name appears first in the register of unit holders shall be eligible to cast the vote.

14.5.4 After completing and signing the voting paper, each unit holder shall submit duly filled and signed voting papers.

14.5.5 AMC or its R/TA shall count the voting papers, verify contents on voting paper including unit holding and shall perform signature verification.

14.5.6 Trustee shall scrutinize and consolidate the data including the details compiled by it on the basis of the voting papers received by post.

14.5.7 The trustee shall submit its report to chairperson of the meeting. The chairperson shall on the basis of summarized voting results, shall announce the final result of the meeting.

#### **14.6 Criteria for Rejection of Proxy/Voting Papers**

14.6.1 The following are the basic criteria for rejection of Proxy/ Voting Papers in meeting:

- (a) More than one Voting Paper is cast by a single unit holder/ Proxy holder.
- (b) Overwriting/ cutting on Voting Paper.
- (c) Unsigned Voting Paper.
- (d) Signature of unit holder affixed on proxy form does not match with the specimen signature available in the AMC or its R/T A records.
- (e) More than one proxy form is lodged by a unit holder in favor of more than one Proxy holder. In this case, all proxies shall stand rejected.
- (f) More than one proxy form is lodged by a unit holder in favor of one Proxy holder. In this case, only one proxy shall be accepted.
- (g) Photocopy of CNIC is not provided by Proxy holder.
- (h) Proxy forms are not witnessed by two persons mentioning their names, addresses and CNIC numbers.
- (i) Proxy form is received after the given time limit, i.e. not one day prior to the meeting.
- (j) Proxy form submitted by an institutional investor is not supported by the resolution of Board of Directors / power of attorney authorizing their representative to attend and vote in the meeting.
- (k) Overwriting / corrections on Proxy Form which are not supported by unit holder's / Proxy holder's signature.

## **14.7 Others**

- 14.7.1 Minutes of the meeting of unit holders shall be prepared and signed jointly by the trustee and the AMC of the scheme.
- 14.7.2 Minutes of the meeting duly signed along with resolution passed by majority representing three fourths in value of the total outstanding units of the concerned scheme shall be sent by the trustee to the Commission within seven working days of the meeting.
- 14.7.3 All expenses incurred in convening unit holders' meetings shall be charged to the CIS.
- 14.7.4 Neither the AMC nor the Trustee shall be liable or responsible in any manner in case a voting paper duly dispatched is not received by the unit holder (s) or the duly filled and signed voting paper is not received by the trustee due to delay on part of the postal department or courier service or due to any other, reason beyond the control of the AMC and / or the Trustee.

### **Annexure-VIII**

<b>Sample Voting Paper for voting through post</b>				
<b>Unit Holders Meeting:</b>				
<b>Date:</b>				
<b>Time:</b>				
<b>Place:</b>				
<b>Name of Unit Holder:</b>				
<b>Folio/Account/CDS Account #of Unit Holder:</b>				
<b>Number of Units Held:</b>				
<b><u>INSTRUCTION FOR VOTING</u></b>				
<b>PLEASE INDICATE YOUR VOTE BY SIGNING THE RELEVANT BOX OF THE SELECTED OPTION</b>				
<b>IN FAVOR OF RESOLUTION:</b>	<table border="1"><tr><td></td></tr><tr><td></td></tr><tr><td></td></tr></table>			
<b>AGAINST RESOLUTION:</b>	<table border="1"><tr><td></td></tr><tr><td></td></tr><tr><td></td></tr></table>			

**Annexure-IX**

**Sample Voting paper for unit holders who are physically present in the Meeting**

**Unit Holders Meeting:**

**Date:**

**Time:**

**Place:**

**Name of Unit Holder:**

**Folio/Account/CDS Account #of Unit Holder:**

**Number of Units Held:**

**Voting as Unit Holder:**

**No. of Units:**

**Voting as Proxy:**

**No. of Units:** \_\_\_\_\_

**INSTRUCTION FOR VOTING**

**PLEASE INDICATE YOUR VOTE BY SIGNING THE RELEVANT BOX OF THE  
SELECTED OPTION**

**IN FAVOR OF RESOLUTION:**


**AGAINST RESOLUTION:**

--

## **CHAPTER 15**

### **CLOSED END SCHEMES**

#### **Requirements for Investment by Closed End Schemes in Its Own Certificates and Subsequent Resale of Such Certificates<sup>94</sup>**

The following requirements for closed-end scheme ("scheme") shall be complied for investment in its own certificates (hereinafter referred to as "repurchase") and for subsequent resale (hereinafter referred to as "resale") of such certificates:

##### **15.1 Requirements and Procedures for Repurchase of Certificates:**

A scheme may repurchase its own certificates from the secondary market up to twenty percent of its issued capital subject to the following conditions:

- 15.1.1 Repurchase of certificates of the scheme shall not be affected if the price of the certificates of the scheme quoted on the stock exchange(s) on which the scheme is listed equals or exceeds the Net Asset Value (NAV) of the scheme.
- 15.1.2 The AMC on behalf of the scheme shall develop a repurchase program that shall be approved by at least three fourth of the members of the Board of Directors ("Board"). The repurchase program shall inter alia specify:
  - (a) eligible discount range for repurchase i.e. percentage difference in market value of certificates of the scheme compared to the NAV of the scheme.
  - (b) maximum number of certificates to be repurchased.
  - (c) repurchase period not exceeding three months and which shall not be extended or rolled over. It is clarified that even when close period occurs within the repurchase period, the overall repurchase period plus the closed period shall not extend beyond three months. Additionally, the company shall clearly indicate in its publication under the said circular that a break period may occur in the repurchase period<sup>95</sup>.
  - (d) sources of funds available for repurchase of certificates.
  - (e) justification for the repurchase. and
  - (f) effect of the repurchase on the financial position of the scheme.<sup>96</sup>
- 15.1.3 The Board shall have the discretion to permit the AMC that it may not affect the repurchase of the certificates of the scheme as per the approved repurchase program if the discount as reflected in the quoted price is less than the eligible discount range. The same shall clearly be

---

<sup>94</sup> SECP Circular No. 14 of 2009 dated May 4, 2009

<sup>95</sup> SECP Letter No. NBFC-II/DD/AAMC/594/2009 dated June 4, 2009



disclosed in the repurchase program.

- 15.1.4 The Board may delegate powers to the Investment Committee for effecting the repurchase in accordance with the repurchase program and in light of the prevailing market conditions and investment considerations.
- 15.1.5 The AMC on behalf of the scheme shall inform in writing, the stock exchange(s) on which the scheme is listed, the trustee of the scheme and the Commission about the decision of the Board regarding repurchase of certificates of the scheme on the day the decision is made.
- 15.1.6 The AMC on behalf of the scheme shall within (3) days of obtaining approval of its Board publish the complete details of the repurchase program ("Public Announcement") and the Net Asset Value per certificate of the business day preceding the date of the Public Announcement in at least two daily newspapers one each in Urdu and English languages, having wide circulation in the federal capital, all the provincial capitals and major cities of the country. The Public Announcement shall clearly specify that the AMC managing the scheme, its directors and employees or the trustee of the scheme are not eligible to sell certificates under the repurchase program. It shall also be clearly indicated in the Public Announcement that any repurchases under the repurchase program shall be made through the stock exchange(s) on which the scheme is listed and in accordance with the securities laws and other exchange requirements.
- 15.1.7 The copy of Public Announcement shall also be sent through courier or registered mail to all certificate holders of the scheme at their addresses available in the register, to the stock exchange(s) on which the scheme is listed, the trustee of the scheme and the Commission on the date of publication of Public Announcement.
- 15.1.8 The AMC on behalf of the scheme shall repurchase certificates of the scheme from secondary market only through the automated trading system of the stock exchange on which the scheme is listed through a Purchase Agent appointed by the AMC managing the scheme for this purpose. The Purchase Agent shall be a corporate brokerage house holding a valid broker registration certificate from the Commission, not being an associated company or associated undertaking of the AMC. To effect repurchase of the certificates of the scheme, the AMC shall execute an agreement with the Purchase Agent that clearly states the role and responsibilities of both the parties to the agreement.
- 15.1.9 The Agreement with the Purchase Agent appointed for the repurchase shall include as an obligation of the Purchase Agent not to sell on his own account under the repurchase program. An additional obligation of the Purchase Agent under the Agreement shall be to make necessary arrangements for the repurchase on all the stock exchange (s) on which the scheme is listed.
- 15.1.10 The AMC on behalf of the scheme shall send notice to the stock exchange (s) on which the scheme is listed, the trustee of the scheme and the Commission at least one day before commencement of repurchase of certificates of the scheme in accordance with the repurchase program. Such notice shall also contain particulars of the Purchase Agent appointed by the AMC managing the scheme and through whom the repurchase shall be affected. The notice so sent shall be immediately announced by the stock exchange on its website, through notices, etc.

- 15.1.11 In addition to the above notice, the AMC managing the scheme shall provide the Commission an undertaking that it meets all the requirements of the repurchase laid down and that the said repurchase is not in contravention of any of the applicable laws, rules, regulations, approvals, contracts, agreements or any obligations of the scheme or the AMC managing the scheme.
- 15.1.12 The daily repurchase volume of certificates of a scheme shall not be higher than 1% of the issued certificates of the scheme. Furthermore, daily bid(s) shall be made in accordance with the following:
- a) bid(s) shall not be made during first half hour and last half hour of each trading session. and
  - b) size of each bid shall not exceed 10% of the certificates to be purchased on a single day.
- 15.1.13 For accounting purposes, the investment made in its own certificates by a scheme shall be treated as a contra account to the certificate holders fund (capital).
- 15.1.14 The certificates repurchased by the scheme shall be held in a CDC account in the name of the trustee of the scheme.
- 15.1.15 AMC managing the scheme shall not charge any management fee for repurchase made in the certificates of the scheme.
- 15.1.16 AMC on behalf of the scheme shall not borrow for the purpose of re-purchase of certificates of the scheme.
- 15.1.17 The certificates held by a scheme on book closure shall not be entitled to any cash dividend. Any certificates allotted as fully paid bonus certificates in respect of the repurchased certificates of the scheme shall be treated as repurchased certificates.
- 15.1.18 The AMC on behalf of the scheme shall inform the stock exchange(s) on which the scheme is listed, the trustee of the scheme and the Commission about the number of certificates repurchased on the day of closing of purchase period.

## **15.2 Requirements and Procedures for Resale of Certificates**

A scheme may resale its own certificates repurchased under a repurchase program in the secondary market subject to the following conditions:

- 15.2.1 The scheme shall hold the certificates so purchased for a minimum period of one month of completion of the repurchase period or the last repurchase made by the scheme, whichever is earlier, before it can resell these certificates in secondary market.
- 15.2.2 The resale of certificates of the scheme shall require approval of at least three fourth members of the Board, which shall indicate the number of certificates to be resold minimum price and justification ("resale program"). The AMC on behalf of the scheme shall resale certificates of the scheme only through the automated trading system of the stock exchange on which the scheme is listed.

15.2.3 The resale price of its own certificates repurchased by a scheme shall not be less than the average re-purchase price of these certificates (after taking any dilution effect, if any).

15.2.4 For accounting purposes, the certificates resold shall result in a reduction in the contra account to certificate holders fund (capital).

### **15.3 General Requirements**

15.3.1 The scheme shall neither be a capital protected scheme nor shall it have limited life.

15.3.2 The Board shall not approve repurchase and resale of certificates of the scheme and the AMC shall not affect a repurchase or a resale program during the pendency of any of the following. Namely:

(a) Voluntary revocation of the scheme by AMC.

(b) Revocation proceedings commenced by the Commission.

(c) At least six months prior to the notice of the meeting of the certificate holders for considering conversion of the scheme into open-end scheme. Further, the Board on behalf of the scheme shall not apply or initiate voluntary delisting or voluntary revocation of the scheme within a period of six months of the close of the Purchase Period.

(d) Inquiry or investigation by the Commission or the State Bank of Pakistan. and

(e) Proceedings relating to mismanagement or change of management of the scheme.

15.3.3 The Board of the AMC managing the scheme shall not approve repurchase of certificates of the scheme before expiry of six months from the date of the Public Announcement for the last approved repurchase program or the completion of the purchase period, whichever is later.

15.3.4 The AMC managing the scheme, its directors and employees and the trustee of the scheme shall not sell or buy certificates to or from the scheme under the repurchase program and resale program.

15.3.5 The AMC on behalf of the scheme shall submit a weekly report to the stock exchange on which the scheme is listed, the Commission and the trustee stating the maximum number of shares authorized to be repurchased or resold, cumulative number of certificates purchased or resold, price-wise breakup of the certificates purchased or resold and the Net Asset Value of the scheme.

15.3.6 The AMC on behalf of the scheme shall disclose in the quarterly, half yearly and annual accounts of the scheme, month-wise break-up of certificates repurchased and/or resold and weighted average price of the repurchase and/or resale.

15.3.7 The AMC on behalf of the scheme shall not repurchase or resale certificates of the scheme during the closed period that shall be 15 days prior to announcement of the half-yearly accounts and one month prior to announcement of the annual accounts and ending on day of announcement of half-yearly and annual accounts or when the scheme or the AMC managing the scheme in its possession of material, non-public, price-sensitive information concerning

the scheme.

15.3.8 The AMC on behalf of the scheme shall not issue further capital, except bonus certificates unless all the repurchased certificates are disposed of in accordance with a resale program. Further such repurchased certificates shall not be disposed of by the AMC on behalf of the scheme through negotiated deals.

15.3.9 Where the Commission is satisfied on its own motion, or on the basis of any information received by it, that it is necessary and expedient so to do:

- (a) in the interest of the certificate holders of the scheme.
- (b) in the interest of investors or the market generally, or
- (c) to prevent the abuse of law or the process laid down in this Circular

it may issue directions to the Scheme, the AMC managing the scheme or any of its directors, the trustee of the scheme, the Purchase Agent, or any other person, including but not limited to:

- (a) stopping the AMC on behalf of the scheme at any stage from making the repurchase.
- (b) to do or desist from doing such acts as the Commission may determine, and
- (c) carry out such steps as are necessary to rectify the situation.

## **CHAPTER 16**

### **SEPARATELY MANAGED ACCOUNTS**

#### **Minimum Requirements for Undertaking Discretionary and Non-Discretionary Portfolio Management<sup>97</sup>**

This Circular applies to the Non-Banking Finance Companies licensed to provide Investment Advisory Services or Investment Finance Services (the "NBFCs") under the Non-Banking Finance Companies (Establishment & Regulations) Rules, 2003 (the "Rules") and the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the "Regulations") for managing Discretionary Portfolios and Non-Discretionary Portfolios ("portfolio management") for eligible investors as defined in the Regulations (herein after referred to as "investors").

Portfolio management entails a fiduciary responsibility entrusted by the investors to the NBFCs and requires them to act in the best interest of the investors. The NBFCs shall abide, in letter and spirit, the following requirements to undertake portfolio management as applicable on Discretionary and Non-Discretionary Portfolios.

The NBFC shall only provide portfolio management services after it has ascertained and satisfied itself that the prospective client fulfills the prescribed eligible investor criteria and has furnished an undertaking as required under the Regulations.

#### **16.1 Portfolio Management Agreement & Investment Policy Statement**

- 16.1.1 The NBFC shall execute a written Portfolio Management Agreement (the "Agreement") with the investor. The said Agreement shall set out in sufficient detail the rights, liabilities and obligations of each party to the Agreement and shall cover, at minimum the aspects specified in the **Annexure-X**.
- 16.1.2 The assets constituting or representing the underlying portfolio being managed by the NBFC shall be registered in the name of the concerned investor and NBFC shall neither directly or indirectly hold, nor provide custodial services for any such assets of the investors. NBFCs providing investment advisory services in accordance with the NBFC Regulations, 2008, are prohibited from holding the underlying assets, both cash and securities, of their clients, irrespective of the fact that such NBFCs may also be engaged in providing associated brokerage services to such clients.<sup>98</sup>
- 16.1.3 The NBFC shall after due consultation with the investor prepare a written Investment Policy Statement ("IPS"). The NBFC shall while devising the IPS, undertake risk and return assessment of the investor and thoroughly evaluate and understand the investor's investment objectives, investment constraints (including tolerance for risk, liquidity needs, time horizon, tax, financial, legal or regulatory constraints) and other unique needs and preferences. The IPS shall form an integral part of the agreement and shall cover at minimum the following

---

<sup>97</sup>SECP Circular No. 32 of 2009 dated October 09, 2009

<sup>98</sup> SECP Letter No. NBFC/MFD/1049/2009 dated December 4, 2009

aspects:

- (a) The investor's qualification, knowledge and understanding of the relevant financial markets, types of financial products or arrangements and the risks involved.
- (b) The length of time the investor has participated in relevant financial markets, the frequency of dealings and the extent to which the investor has relied on financial advice from investment service providers.
- (c) The size and nature of transactions that have been undertaken by the investor in relevant financial markets and the composition and size of the investor's existing investment portfolio, if any.
- (d) Investment objectives including types of securities in which investment would be made specifying proportion of exposure and restrictions, if any.
- (e) Investor's tolerance for risk i.e. both ability and willingness of client to bear risk, return objectives and a detailed statement of risks specific to investment policies and objectives.
- (f) Liquidity requirements, tax constraints and time horizon for investment in relation to specific security and overall portfolio. and
- (g) Other unique circumstances, matters or aspects of the investor which the NBFC considers relevant.

16.1.4 The NBFC shall discuss approved IPS with the investor at least annually to determine if the IPS remains appropriate for the investor in light of investor's changing investment preferences or circumstances. Change in IPS shall only be implemented after securing the investor's consent in writing. If the circumstances materially change in the interim and warrant an earlier assessment of the same shall be undertaken by the NBFC and discussed with the investor and appropriate action shall be taken.

16.1.5 The Agreement and IPS shall be signed by the NBFC or its authorized signatories and the investor or its authorized signatories and shall be maintained by the NBFC in its record for inspection purposes by auditors, officers of the Commission, or any other relevant agency/authority. The Commission may at any time demand a copy of the Agreement and IPS to be furnished.

16.1.6 The NBFC shall perform portfolio management for the investor in accordance with the agreement.

## **16.2 Business Conduct**

16.2.1 The NBFC shall, in the conduct of its business, observe high standards of integrity, fairness and diligence. It shall exercise independent professional judgment and ensure proper care in all its dealings with the investors without gaining any advantage for itself, related parties, connected persons or employees which causes detriment to the investors.

16.2.2 The NBFC shall manage portfolio of each investor independent from that of other investors and shall keep and maintain all relevant records, in support of every investment

recommendation or transaction.

- 16.2.3 The NBFC shall establish, maintain and implement written policies and procedures to preserve confidentiality of information provided by the investors and ensure fair and equitable treatment to all investors while providing investment information, making investment recommendations or taking investment actions including fair allocation of trades.
- 16.2.4 The NBFC shall determine before providing an investment advice or taking investment action on behalf of an investor, whether the investment is suitable in light of the Agreement and approved IPS of the investor and after satisfying itself, recommend or effect an investment decision.
- 16.2.5 The NBFC shall ensure that all professional dealings are affected in a prompt, efficient and cost-effective manner. It shall not derive any direct or indirect benefit out of the investor's funds or securities other than the fees agreed between the investor and the NBFC.
- 16.2.6 The NBFC shall establish and implement written policies and procedures to ensure that complaints from investors are handled in a timely and appropriate manner.
- 16.2.7 The NBFC, on termination of the Agreement with the investor, shall give a detailed statement of accounts to the investor and settle the account with the investor as per the Agreement.
- 16.2.8 The NBFC shall supply to the Commission, copies of all reports sent to the investor as and when required by the Commission.

### **16.3 Guarantee by AMCs and IAs regarding Portfolio Management<sup>99</sup>**

The Securities and Exchange Commission of Pakistan directs all AMCs having investment advisory services license (AMCs) and Investment Advisors (IAs) to comply with the following in relation to management of discretionary and nondiscretionary portfolios:

- 16.3.1 No guarantee in any form by whatever name called shall be offered/issued/assumed by any AMC or IA to any of its existing or new client/investor for the protection of principal investment or any return on such investment. In this context, AMCs and IAs shall incorporate the following disclosure clause in all the existing and new portfolio management agreements signed between them and their clients/investors:

*"The **(name of AMC/IA)** does not offer or issue or assume any guarantee for the protection of the principal investment or any return on such investment by **(name of client/investor)** and the investment portfolio of **(name of client/investor)** is subject to market and other risks".*

---

<sup>99</sup>SECP Direction No. 03 of 2015 dated September 4, 2015

## **Annexure-X**

### **Minimum Contents of Portfolio Management Agreement**

The Portfolio Management Agreement shall, *inter alia*, cover the following aspects:

1. Name of the investor and the NBFC.
2. Scope of services to be provided by the NBFC including functions, obligations, duties and responsibilities (for Discretionary and Non-Discretionary management of portfolio to be given separately) with specific provisions regarding instructions for Non-Discretionary portfolio management.
3. Clear authorization from the investor in case of Discretionary portfolio management.
4. Term of the Agreement and provision for renewal, if any.
5. Conditions, under which Agreement may be altered, terminated and implications thereof, such as settlement of amounts invested and repayment obligations etc.
  - (a) Voluntary/mandatory termination by the NBFC.
  - (b) Voluntary/mandatory termination by the investor. and
  - (c) Mandatory termination in case of cancellation of license of the NBFC.
6. Initial quantum of funds to be managed.
7. Access to information i.e. provisions enabling investor to inspect and get copies of the books of accounts of the NBFC relating to his transactions.
8. The nature, quantum and manner of payment of fees and charges for each activity for which the NBFC renders services.
9. Method and basis of valuation of securities in the portfolio of investor, performance standards/benchmarks and frequency of performance review (quarterly, half-yearly, etc.) to the investor.
10. Details of the custodian arrangement.
11. Liability of the NBFC i.e. liability of NBFC in connection with the recommendations made, to cover errors of judgment, negligence, willful misfeasance in connection with discharge of duties, acts of other intermediaries, brokers, trustees etc.
12. Liability of investor i.e. restricting the liability of the investor to the extent of investor's investment or disinvestment instructions received as per the written Agreement.
13. Governing law/jurisdiction, which governs the Agreement to be stated.
14. Mode and frequency of reporting to the investor (monthly, quarterly, semiannually, annually or on such periodicity as may be decided) at least containing the following information:
  - (a) Performance review.
  - (b) Details and the composition of portfolio including the value & description of the portfolio, value of each security held in the portfolio and cash balance as on the date of report.
  - (c) Details of benefits received during that period including interest, dividend, bonus shares and rights shares.
  - (d) Transactions undertaken during the period including date of transaction and details of purchases and sales. and
  - (e) Details of fee charged to the investor.

*Any change in terms of Agreement shall only be incorporated through addendum to the initial Agreement and after obtaining written approval of the investor.*



## **CHAPTER 17**

### **MISCELLANEOUS**

#### **Uniformity in Dealings<sup>100</sup>**

The AMCs shall comply with the following in respect of collective investment schemes being managed by such AMCs:

#### **17.1 Designated Points and Time Stamping**

- 17.1.1 AMCs shall designate and disclose the location of its official points for acceptance of applications for issuance, redemption, conversion, etc. of units in the offering document of the open-end scheme(s) as well as on their website. AMCs shall receive the said applications only at such designated points.
- 17.1.2 AMCs shall ensure that all the designated points for acceptance of applications for issuance, redemption, conversion, etc. of units of open-end scheme(s) have appropriate date and time stamping mechanism for timely acknowledgement of the said applications.
- 17.1.3 AMCs shall clearly specify cut-off timings for acceptance of applications for issuance, redemption, conversion etc. of units of their open-end scheme(s) including approved administrative plans in the constitutive documents, on the website of AMCs and at the designated points, such cut off timings shall uniformly apply on all the investors /unit holders.

#### **17.2 Announcement of Daily NAV**

AMCs shall announce net asset value (NAV) of all open-end scheme(s) (except for Fund of Funds scheme) being managed by them latest by 1830 hours daily on their own as well as on MUFAP's website. However, the NAV of Fund of Funds scheme, shall have announced by 1030 hours of the next business day.

#### **17.3 Suspension of Issuance and Redemption of Units**

AMCs shall ensure that in case of " suspension of redemption of units of open-end scheme due to extraordinary circumstances in terms of the provisions of the constitutive documents and Non-Banking Finance Companies and Notified Entities Regulations, 2008 (as amended or replaced) ("the "Regulations"), the issuance of fresh units shall also be kept suspended until and unless redemption of units is resumed. In case, where redemption requests exceed ten per cent of the total number of units in issue of fund on any one dealing day, the redemption requests of AMCs and its sponsors, if any, shall have least priority for redemption on that day<sup>101</sup>.

---

<sup>100</sup>SECP Circular No. 11 of 2009 dated March 26, 2009

<sup>101</sup> SECP Direction No. 2 of 2017 dated January 13, 2017

## **17.4 Closure of Register of Unit-holders**

The register of unit holders of open-end scheme may be closed for the purpose of declaration of dividend for a period not exceeding the maximum time period as specified in the constitutive documents for payment of redemption proceeds to the unit holders. In no case, the time period for closure of register for dividend declaration shall exceed six (6) working days at a time and whole forty-five days in a year.

## **17.5 Amortization of formation cost**

All expenses incurred in connection with the incorporation, establishment and registration of collective investment schemes (formation cost) in terms of Regulation 60 (1) & 60 (2) of the Regulations, shall be reimbursable by a collective investment scheme to an AMC subject to the audit of expenses. The said formation cost shall be amortized by collective investment scheme over a period of not less than five years or within the maturity date of collective investment scheme.

## **17.6 Filing of Monthly Returns through Specialized Companies Return System (SCRS)<sup>102</sup>**

SECP has developed an online Returns Submission System in order to facilitate the NBFC's industry and to streamline the submission of information to the Commission. The details of the system and user manual are placed on the SECP website for your information and assistance.

The NBFCs will have to obtain login ID and password from IS & T Department of SECP, to enter the requisite monthly data in the system. For secure submission of returns, Digital Signatures for the CFO and Company Secretary can be acquired from National Institute of Facilitation Technology (NIFT). Therefore, all the NBFCs are required to submit their monthly returns through the Specialized Companies Return System (SCRS) by the 10<sup>th</sup> of every month.

## **17.7 Regulatory requirements for branches of AMCs<sup>103</sup>**

In order to promote investor protection and facilitation, the Securities and Exchange Commission of Pakistan (Commission), issues the following requirements for branches (place of business) of AMCs:

**17.7.1** AMCs shall report to the Commission, details of opening of a new branch, 15 days prior to opening of the subject branch. AMCs shall submit the following information:

- (a) Number of existing branches
- (b) Exact location of the branch
- (c) Business prospects for opening the branch
- (d) List of products and services to be offered
- (e) System of supervision and control
- (f) Number of employees to be posted

---

<sup>102</sup>SECP Circular No.1 of 2010 dated January 15, 2010 (not found)

<sup>103</sup>SECP Circular No. 2 of 2016 dated January 22, 2016

- (g) Name, number and location of branches of other AMCs in the near vicinity

**Note:** Branch or place of business means any permanent point of sale where the employee of the AMC is selling the units of collective investment scheme.

- 17.7.2 The AMC shall obtain approval of the Commission prior to opening and closing of a branch in any Capital Market Hub and submit the information given at point no.1 above.
- 17.7.3 AMCs shall report closure of a branch to the Commission with specific reasons, at least 90 days prior to the closure of the branch.
- 17.7.4 AMCs while closing of their branch shall submit to the Commission, a final statement comprising complete record of the branch, at least 21 days prior to closure of the branch.
- 17.7.5 AMCs while closing of their branch shall ensure that the public is informed through a public notice in a local daily newspaper at least 30 days prior to the closure of the branch. The information of the same should also be visibly displayed at the respective branch at least 30 days prior to the closure of the branch. The copy of the published public notice shall also be submitted to the Commission within two days of publication.
- 17.7.6 AMCs while closing of their branch shall inform the investors in writing about future correspondence address/mechanism and transfer their relevant record to the Head Office of the AMC or nearest branch as deemed appropriate.
- 17.7.7 AMCs may relocate their existing branch within the same city. However, they shall report to the Commission 15 days prior to shifting upon shifting of the existing branch to a new location.
- 17.7.8 The Commission may inspect the branches of AMCs on a regular basis to ensure that their activities are being conducted in accordance with the prevalent regulatory framework.
- 17.7.9 AMCs shall ensure the following with respect to their branches:
- (a) Appropriate display of certificate of incorporation and valid license to conduct its respective business.
  - (b) Properly trained staff/human resource.
  - (c) Security arrangements for the safety of documents and staff.
  - (d) Proper customer support for filling up of applications and completion of documentation.
  - (e) Drop box facility for collection of complaints and grievance redressal system/mechanism for prompt and effective resolution of investors' complaints.
  - (f) Product information relating to various products being offered by the AMC at the branch through printed brochures for the information of potential /existing investors.
- 17.7.10 AMCs shall place standees written in Urdu language in a clear and concise manner (specimen attached as **Annexure-XI**) with the logo of "Jama Punji", covering the following contents:
- (a) What is a mutual fund.
  - (b) Benefits of investing through a mutual fund.
  - (c) Procedure for investing through a mutual fund.

### 17.8 Data Provision Requirement for the AMCs<sup>104</sup>

All AMC's registered under the Companies Ordinance, 1984 to provide following data to the Mutual Fund Association of Pakistan (MUFAP) within 4 working days after the end of each calendar year.

S. No.	Report Name	Data Fields/Columns
1.	Fund-wise investment and redemption	[Fund Type, Investment, Redemption, Net Investment]
2.	Investor-Wise Break up	[Fund Type, Individuals, Banking and Fls, Provident Fund, Gratuity Fund, Pension Fund, Public Limited Companies, Associated Companies, Funds of Funds, others, total]
3.	Channel-Wise Break up	[Fund Type, Direct investment, through RSP*-individuals, through RSP-Corporates, Banks- Commercial/ Scheduled, others, total]

Detailed Format of required data is attached as **Annexure-XII**.

---

<sup>104</sup> SECP Directive No. 8 of 2021 dated March 18,2021

## Annexure-XI

### میوچل فنڈ کیا ہے۔

- ۱۔ میوچل فنڈ بچت اور سرمایہ کاری کا ایک متبادل طریقہ ہے۔
- ۲۔ میوچل فنڈ میں بہت سے سرمایہ کار اپنی بچتوں کو اکھٹا کر کے سرمایہ کاری کرتے ہیں۔
- ۳۔ میوچل فنڈ کے ذریعے آپ سٹاک مارکیٹ اور دوسرے مالیاتی اثاثہ جات میں بھی سرمایہ کاری کر سکتے ہیں۔
- ۴۔ میوچل فنڈ میں آپ کی سرمایہ کاری کا منتظم ایس ای سی پی کا منظور شدہ فنڈ مینیجر ہوتا ہے۔
- ۵۔ میوچل فنڈ کے اثاثے ایک غیر جانبدار ٹرسٹی اپنی ملکیت میں رکھ کر سرمایہ کاروں کو یقینی تحفظ فراہم کرتا ہے۔

### میوچل فنڈ میں سرمایہ کاری کے کیا فوائد ہیں۔

1. آپ جب چاہیں سرمایہ کاری کریں اور جب چاہیں اپنی سرمایہ کاری کیش کروائیں۔
2. آپ چھوٹی سی رقم سے بھی سرمایہ کاری کر سکتے ہیں۔
3. صرف ایس ای سی پی کا منظور شدہ فنڈ مینیجر آپ کی سرمایہ کاری کا منتظم ہو سکتا ہے۔
4. فنڈ مینیجر اپنے تجربے اور قابلیت کی بنا پر آپ کی نسبت بہتر سرمایہ کاری کر سکتا ہے۔
5. فنڈ مختلف اثاثہ جات میں سرمایہ کاری کرتا ہے جو عام سرمایہ کاری کی شاخ مارکیٹ میں براہ راست سرمایہ کاری کرنے کی نسبت آسان اور بہتر طریقہ کار ہے۔
6. اگر آپ سرمایہ کاری کیلئے فنڈ مینیجر کے دفتر خود جاتے ہیں تو سیل کمیشن لاگو نہیں ہوگا۔

ہفتا دہیوچل فنڈ میں کی گئی سرمایہ کاری کو مارکیٹ کے خطرات لاحق ہوتے ہیں۔ ماضی کی کارکردگی مستقبل کے نتائج کی لازمی عکاسی نہیں کرتی۔ انوسٹمنٹ پالیسیوں، خطرات اور نقص کے علاقے کو سمجھنے کیلئے فنڈز کے آفرنگ دستاویزات کا بغور مطالعہ کریں۔

## میوچل فنڈ میں سرمایہ کاری کا طریقہ

1. فنڈ مینجر کی ویب سائٹ، دفتر یا میوچل فنڈ کے ڈسٹری بیوٹر سے "اکاؤنٹ اوپننگ فارم" حاصل کریں۔
2. فارم پر موجود کوائف کو پُر کریں اور ضروری دستاویزات جیسا کہ شناختی کارڈ کی نقل وغیرہ کو فارم کے ساتھ منسلک کریں۔
3. سرمایہ کاری کی رقم صرف کراس چیک یا ڈیمانڈ ڈرافٹ یا بے آرڈرجو کہ میوچل فنڈ کے ٹرسٹی کے نام ہو گا کے ذریعے جمع کرائیں اور ہمیشہ رسید حاصل کریں۔
4. اپنی سرمایہ کاری کی مارکیٹ ویلیو کی روزانہ کی معلومات فنڈ مینجر یا میوچل فنڈ ایسوسی ایشن آف پاکستان کی ویب سائٹ سے حاصل کریں۔
5. جب چاہیں اپنی سرمایہ کاری کے اکاؤنٹ کی تفصیلات فنڈ مینجر سے حاصل کریں۔
6. یاد رکھنیے کہ میوچل فنڈ اسکا کوئی بھی نمائندہ کسی بھی مد میں نقد رقم وصول کرنے کا مجاز نہیں ہے۔
7. کسی بھی شکایت کی صورت میں ایس ای سی پی کی ہیلپ لائن 111-117-327 پر کال کریں یا ویب سائٹ [complaints@secp.gov.pk](mailto:complaints@secp.gov.pk) پر شکایت درج کریں۔

انتباہ: میوچل فنڈ میں کی گئی سرمایہ کاری کو مارکیٹ کے خطرات لاحق ہو تے ہیں ماضی کی کارکردگی مستقبل کے نتائج کی لازمی عکاسی نہیں کرتی۔ انوسٹمنٹ پالیسیوں، خطرات اور ٹیکس کے اطلاق کو سمجھنے کیلئے فنڈز کے آفرنگ دستاویزات کا بغور مطالعہ کریں۔

## **Annexure-XII**

### **1. Fund-Wise Investment and Redemption**

<b>Fund Type</b>	<b>Investment</b>	<b>Redemption</b>	<b>Net Investment/ Redemption</b>

### **2. Investor-Wise Break up**

<b>Fund Type</b>	<b>Individuals (A)</b>		<b>Banking &amp; Financial Institutions (B)</b>		<b>Provident fund (C)</b>		<b>Gratuity fund (D)</b>	
	Investment	Redemptions	Investment	Redemptions	Investment	Redemptions	Investment	Redemptions

<b>Pension fund (E)</b>		<b>Public Limited Companies (F)</b>		<b>Associated Companies (G)</b>	
Redemptions	Investment	Investment	Redemptions	Investment	Redemptions

<b>Fund of funds (H)</b>		<b>Others (I)</b>	
Investment	Investment	Redemptions	Investment

### **3. Channel-Wise Break up**

<b>Fund Type</b>	<b>Direct Investment (A)</b>		<b>Through RSP* - Individuals (B)</b>	
	Investment	Redemptions	Investment	Redemptions

<b>Through RSP — Corporates (C)</b>		<b>Banks - Commercial / Scheduled (D)</b>		<b>Others (E)</b>	
Investment	Redemptions	Investment	Redemptions	Investment	Redemption

## **CHAPTER 18**

### **ANTI MONEY LAUNDERING**

#### **Customer Due Diligence (CDD)/Know Your Customer Policy (KYC)<sup>105</sup>**

In exercise of the powers conferred under section 282B (3) of the Companies Ordinance, 1984, read with Regulation 9 of Non-Banking Finance Companies and Notified Entities Regulation 2008, the Securities and Exchange Commission of Pakistan hereby issues the following instructions to safeguard NBFCs against involvement in money laundering activities, terrorist financing and other illegal trades.

NBFCs shall formulate and put in place, a comprehensive Customer Due Diligence / Know Your Customer Policy (CDD/KYC) duly approved by their Board of Directors. CDD / KYC policy of the NBFCs shall interalia include a description of the types of customers that are likely to pose a higher than average risk to the NBFC and guidelines for conducting Enhanced Customer Due Diligence depending upon the customers' background, country of origin, public or high-profile position, nature of business, etc.

#### **18.1 Minimum Information/Documents**

- (a) NBFCs shall obtain the following minimum information/set of documents from various types of customers / account holder(s) for examination and verification, at the time of opening account:

Type of Customer	Information/Documents
Individuals/Sole proprietorship	Name
	Father's Name
	Address
	Telephone Number
	Copy of CNIC or Passport
	Any documentary evidence providing reasonable assurance in identifying the source of funds <sup>106</sup>
	Business/Employment proof
Partnership Account	Name of partnership and partners
	Father's Name of partners
	Address
	Telephone No
	Copies of CNIC of all the partners
	Any documentary evidence providing reasonable assurance in identifying

<sup>105</sup> SECP Circular No. 12 of 2009 dated April 28, 2009

<sup>106</sup> SECP Circular No. 28 of 2017 dated November 14, 2017



	the source of funds <sup>107</sup>
Joint Stock Companies	Name of Company and its Directors
	Registered Address
	Telephone Number
	Copies of CNICs of all directors

	Audited accounts of the company or in case of private company financial statements in accordance with the filing requirements of section 234 of the Companies Act, 2017 <sup>108</sup>
	Memorandum and Articles of Association
	Board Resolution
Club Societies and Associations	Certified copy of certificate of registration
	Certified copy of bylaws/rules and regulations
	Board / Governing body Resolution
	Copy of latest financials of the Society/Association
Trusts	Copy of CNIC of all the trustees
	Certified copy of trust deed
	Trustee / Governing body Resolution
	Copy of latest financials of the Trust
Executors and Administrators	Copy of CNIC of the Executors/Administrator
	Certified copy of Letter of Administration

- (b) For all customers, NBFCs should determine whether the customer is acting on behalf of another person, and should then take reasonable steps to obtain sufficient identification data (such as copy of CNIC, or other relevant document/information) to verify the identity of the beneficiary.
- (c) For customers that are legal persons or for legal arrangements, NBFCs are required to take reasonable measures to:
  - i. understand the ownership and control structure of the customer
  - ii. determine that the natural persons who ultimately own or control the customer. This includes those persons who exercise ultimate effective control over a legal person or arrangement.
- (d) Government accounts should not be opened in the personal names of the government official(s). Any such account, which is to be operated by an officer of the Federal /

<sup>107</sup> SECP Circular No. 28 of 2017 dated November 14, 2017

<sup>108</sup> SECP Circular No. 28 of 2017 dated November 14, 2017

Provincial / Local Government in his / her official capacity, shall be opened only on production of a special resolution / authority from the concerned administrative department duly endorsed by the Ministry of Finance or Finance Department of the concerned Government.

#### 18.1.3 Verification

Verification is an integral part of CDD / KYC measures for which NBFCs shall ensure that.

- (a) copies of CNIC wherever required are invariably verified. Before opening the account, NBFCs shall verify CNIC by utilizing on-line facility of NADRA. In case NBFC or its branches do not have the on-line facility, then CNIC shall be verified from the Regional Office of NADRA. The cost of verification of CNIC from NADRA shall not be passed on to the existing or prospective account holder of NBFCs.
- (b) for all existing customers including depositors and borrowers, NBFCs shall obtain the copies of CNICs and all required information/documents latest by September 30, 2009.

#### 18.1.4 High Risk Customers

NBFCs shall conduct enhanced due diligence when:

- (a) dealing with high-risk customers, business relationship or transaction including the following.
  - i. non-resident customers.
  - ii. non-legal persons or arrangements including non-governmental organizations
  - iii. (NGOs) / not-for-profit organizations (NPOs) and trusts / charities.
  - iv. customers belonging to countries where CDD / KYC and anti-money laundering regulations are lax.
  - v. customers with links to offshore tax havens.
  - vi. high net worth customers with no clearly identifiable source of income. and\
  - vii. customers dealing in high-value items.
- (b) there is reason to believe that the customer has been refused by another financial institution.
- (c) Dealing with politically exposed persons (including foreigners) or customers holding public or high-profile positions. For politically exposed persons or holders of public or high-profile positions, enhanced due diligence should include the following:
  - i. Relationship should be established and/ or maintained with the approval of senior management including when an existing customer becomes holder of any public office or high-profile position.
  - ii. Appropriate risk management systems shall be put in place to determine whether a potential customer, existing customer or the beneficial owner, is a politically exposed person, holder of public office or the holder of high-profile position. The sources of wealth /funds of such customers, shall be monitored on regular basis.
- (d) Establishing business relationship or transactions with counterparts from or in countries not sufficiently applying Financial Action Task Force (FATF) recommendations.

### 18.1.5 Low Risk Customers

Where there are low risks and information on the identity of the customer and the beneficial owner of a customer is publicly available, or where adequate checks and controls exist, NBFC may apply simplified or reduced CDD / KYC measures. Following cases may be considered for application of simplified or reduced CDD / KYC:

- (a) Financial institutions provided they are subject to requirements to combat money laundering and terrorist financing consistent with the FATF recommendations and are supervised for compliance with those requirements.
- (b) Public listed companies that are subject to regulatory disclosure requirements, Government administrations/ entities.

### 18.1.6 Record Updation

NBFCs are also advised that CDD/KYC is not a onetime exercise to be conducted at the time of entering into a formal relationship with customer / account holder. This is an ongoing process and to this end, NBFCs are required to:

- (a) Put in place a system to monitor the accounts and transactions on regular basis.
- (b) Update customer information and records, if any, at reasonable intervals.
- (c) Chalk out plan of imparting suitable training to the staff of NBFC periodically.
- (d) Maintain proper records of customer identifications and clearly indicate, in writing, if any exception is made in fulfilling the CDD / KYC measures.

### 18.1.7 Record Retention

NBFCs shall keep records regarding the identification data obtained through the customer due diligence process (e.g. copies or records of official identification documents like passports, identity cards, driving licenses or similar documents), account files and business correspondence for at least five years after the business relationship is ended.

- 18.1.8 In case NBFCs are not able to satisfactorily complete required CDD/KYC measures, account should not be opened, business relationship should not be established and business transaction should not be carried out. Instead reporting of suspicious transaction be considered. Similarly, relationship with existing customer should be terminated and reporting of suspicious transactions be considered if CDD/KYC is found unsatisfactory.

The above-mentioned instructions are the minimum guidelines and NBFCs are encouraged to take additional measures if deemed appropriate.

This is with reference to Circular No. 12 of 2009 dated April 28, 2009 wherein all Non-Banking Finance Companies (NBFCs) were required to formulate and put in place, a comprehensive Customer Due Diligence / Know Your Customer Policy duly approved by their Board of Directors.<sup>109</sup>

---

<sup>109</sup> SECP Circular No. 9 of 2017 dated April 17, 2017

In this connection, the Securities and Exchange Commission of Pakistan hereby instructs all NBFCs to provide information as per the format given in Annexure-A with respect to those investments made in NBFCs wherein the investment amount is equal to or greater than the following thresholds for different class of investors:

Investor Class	Investment Amount (Rs. in million)
Corporate	100.00
Trust	50.00
Individual	10.00

In case of donations/grants received by NBFCs, the threshold for reporting to the Commission shall be Rs. 5.00 million or above irrespective of the investor class.

For the purpose of this clause, the expression "investments " shall include all sums received by an NBFC including but not limited to amount received for the purchase of shares/units, loans, deposits etc.

The above reporting requirements shall not be applicable to investments made by financial institutions, public listed companies, licensed entities, AMCs, mutual funds, insurance companies or Government administration/entities.

The aforementioned information shall be submitted on monthly basis within 5 days from the close of every month in MS Excel format at the email address: [reporting.scd@secp.gov.pk](mailto:reporting.scd@secp.gov.pk).