



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
SPECIALIZED COMPANIES DIVISION
(NBFC DEPARTMENT)

292
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June 21, 2011

Mr. Shamshad Nabi
Chief Executive Officer
Mutual Fund Association of Pakistan
207, 209, 2nd Floor, Qassam Court
Block-5, Clifton
Karachi

Subject: Investment in Futures Contracts

Dear Sir,

This is to bring to the notice of MUFAP that in view of the request of an Asset Management Company (AMC), the Commission allowed investment in futures contracts on behalf of a Collective Investment Scheme (CIS) subject to compliance with certain conditions. The Commission has taken an 'in-principle' decision to allow equity/equity-oriented CISs to invest in futures contracts. However, before proceeding with the investment the concerned AMC shall seek approval of the Commission as mandated by the constitutive documents of the relevant CIS.

Following are the conditions under which approval for investment in futures contracts has been granted:

- All positions in the futures contracts shall be subject to the single entity/sector limits as prescribed under Regulation 55(5) & (6) of the NBFC Regulations, 2008. Additionally, position limits stipulated in Schedule 4 of the Risk Management Regulations of Karachi Stock Exchange shall be strictly adhered to;
- Exposure in futures contract shall be marked-to-market on a daily basis as per requirement of the stock exchange on which it is listed. For the purpose of reporting to the Commission, exposure shall be calculated by converting the derivative position into equivalent position in the underlying security;
- Maximum exposure of the CIS shall not at any time exceed 100% of its net assets to curb any gearing/leverage by the CIS. For this purpose, the 'preserved cash', i.e. the difference between the contract price and upfront margin shall be blocked in an earmarked account for settlement purposes and the AMC along with the trustee shall ensure timely payment of settlement amount/margin calls on behalf of the CIS within the time period stipulated by the exchange;



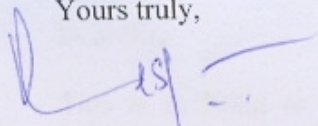
- Sale position in futures contract without pre-existing interest shall be strictly prohibited; and
- Spread transactions shall be accounted for in calculating exposure limits.

Furthermore, the AMC needs to ensure that the supplemental offering document of the relevant CIS contains following disclosures:

- a) a statement as to whether futures contracts are used for the purposes of hedging or meeting the investment objectives of the scheme; and
- b) a description of risk management and compliance procedures and controls adopted to ensure appropriate risk management mechanism.

You are advised to transmit this information to the member AMCs in the industry.

Yours truly,



Vinod Sitani
(Joint Director)