



Committee Reports

Technical Committee- Mutual Funds

(9 meetings held in the period July 1, 2014 to June 30, 2015)

Member	Meetings Attended	Member	Meetings Attended
Mr. Yasir Qadri – Chairman	9 out of 9	Mr. Ali Alvi	5 out of 9
Mr. Shahid Ghaffar	7 out of 9	Mr Muhammad Murtaza Ali	6 out of 9
Mr. Imran Azim	9 out of 9	Mr. Kashif Mustafa	2 out of 9
Ms. Mashmooma Z. Majeed	9 out of 9	Mr. Ahmed Ateeq*	0 out of 6
Mr. Muhammad Asad	7 out of 9	Mr. Syed Zain Raza**	4 out of 6
Mr. Muhammad Sohail Qadri	2 out of 9	Mr. Mansoor Wahid Bux***	3 out of 3
Mr. Muhammad Imran	4 out of 9		

* Member till January 22, 2015, **Member till January 16, 2015, ***Member since January 15, 2015

TERMS OF REFERENCE

- To review Acts, Ordinances, Rules and Regulations, Circulars pertaining to mutual funds on an ongoing basis and making recommendations to the SECP; and
- Periodic and ad-hoc review of standardised trust deed and offering document (at least annual);
- To research on investment products in international markets;
- Drafting regulations for new product development;
- Developing MUFAP codes for members and service providers;
- At least Annual review of all MUFAP's Codes and Guidelines (this includes periodic review and ad-hoc review of MUFAP's Code of Qualification and Conduct for Registered Service Providers);
- Ensuring Implementation of Codes, including action against violators or reporting to SECP;

ACTIVITIES' REPORT

Draft of Revised NBFC Rules 2003 NBFC & NE Regulations 2008

Technical Committee Mutual Funds held numerous detailed sessions to discuss the technical aspects and the implications of draft of the NBFC Rules and Regulations shared by SECP for comments. Every point in draft was meticulously analyzed, and the committee members shared their valuable suggestions. The key points pertaining to asset management were as follows:

REGULATIONS

a) Total Expense Ratio

The definition and calculation of Total Expense Ratio was reviewed. The committee recommended that Sales tax and WWF should be replaced by 'any Government levy' as that will cover both all existing and future taxes and levies. Furthermore, it was also suggested that Government levies, SECP Fees and Taxes should be excluded from the limits of computing the total expense ratio and this exclusion should be clearly specified in the definition of

Total Expense Ratio. Following limits were specifically recommended to Board for submission to SECP:

- Equity, Index Tracker, Balanced, Capital Protected, Commodity and Asset Allocation Schemes up to 4%
- Income / Aggressive Income - 3%,
- Money Market, Capital protected, and Commodity Schemes up to 2%

b) Expenses Chargeable to Collective Investment Schemes

The technical committee members specifically proposed the following expenses to be charged to the Fund:

- Fees and expenses related to registrar services, accounting, operation and valuation services related to CIS maximum up to 0.1% of net assets of the Scheme or actual whichever is less should be allowed.
- Shariah advisory fee should be chargeable to CIS.
- Custody and insurances costs relating to the safekeeping of the physical gold in the vault(s) for Commodity Funds should be allowed.

c) No. of Funds managed by each Fund Manager

The Committee recommended that instead of having one fund manager for three funds which leads to a lower quality of fund managers, the regulatory requirement should be for at least one person per asset class that an AMC manages who is an asset class specialist.



d) Requirement of Investment Committee

The technical committee was of the opinion that investment committee functions should not be mandatorily required by the regulation. The committee viewed this requirement from global perspective and weighed its implication against operational efficiencies. The Committee members were of the view that having an investment committee and determining its role should be each asset management company Board's prerogative and its functions should not be defined in the Regulations. Furthermore, the Investment Committee should formulate the macro policies in light of the Fund's objectives and review it on a periodic basis. The day to day investment decisions, prices, limits should be the responsibility of the Fund Manager and not the Investment Committee so that the Fund Manager can also be held accountable for the performance of the Fund by the Investment Committee.

e) Requirement of different Auditors

The committee analyzed the requirement of different auditors for the Funds and the AMC and was of the view that since there is no issue of independence, the requirement should be removed. Furthermore State Bank requires that the subsidiaries should have the same auditor as the parent company which leaves with very few options regarding Auditing firm to be appointed. Hence, the committee proposed the elimination of this requirement.

f) Stability Rating and Performance Ranking

The committee believed that as past performance is not the guarantee of future results, performance ranking should not be required for funds to obtain. This is primarily due to two reasons. Firstly, performance ranking evaluation criteria primarily focus on past performance of the funds. Secondly, Mutual Funds disclaimer states that past performance is not indicative of future performance. Furthermore, the committee also discussed that deposit taking entities are required to have ranking / rating; and since Mutual Funds is not deposit taking entity, this requirement does not seem appropriate for Mutual Funds.

g) Opening Branches and Outlets

This should not be made mandatory for Asset Management Companies. The expansion of any AMC business should be at the discretion of individual Asset Management Company and their business model. The committee members unanimously proposed elimination of this requirement.

h) Account Statement to Unit / Certificate Holders

There is no regulation which stipulates minimum frequency for issuance of account statement to unit holders. Therefore, in order to standardize the procedure the committee proposed that investment account statement should be sent to each unit / certificate holder on the registered mailing address provided by the unit holder at least once a year. Asset Management Company shall provide the statement to the investors within 7 working days from the receipt of such request.

i) Appointment of Independent Registrar

The proposed regulations required CISs to have independent registrar. The committee members discussed this requirement and commented that Mutual Fund industry operates in quite transparent environment. Since there is presence of an independent Trustee for each Fund and no sponsor shares exist which may lead to manipulation, there is no need of an independent Registrar. Furthermore, quality of service is of high importance for Mutual Funds, therefore, AMC should have right to have it in-house as a separate function or appoint a Registrar. In light of these points, the members proposed the Board deletion of the requirement.

j) Investment policy and diversification

Regulation 55(13) discusses the limits of the exposure of investments. The members were of the opinion that the limit is very often exceeded due to both redemptions and sales. However, the word sale is not included in the relevant regulation clause, and hence it requires amendment. The members after due discussion agreed to propose the amendment to the Board.



RULES

1. Terms and Definition

a) Close Relative

The committee was of the view that the definition of close relative should not include 'Brother and Sister'. It should include spouse, dependent parents and children only.

b) Connected Person

The committee members discussed the legal meaning of Notified Entities and Trust. The members commented that it has been decided in a court of law that Trust does not become part of the definition of connected person. Since Notified Entity serves as a trust, it should not be a part of the definition. After due discussion the Committee members agreed that since Connected Person is defined in Companies Ordinance, definition in NBFC Rules should be linked and referred to Companies Ordinance's definition.

c) Group

The committee highlighted practical issues in determining the indirect ownership of a person in a company which may then form a group. Structure of a group keeps changing and it is difficult to keep track of all changing information. In addition, all the information is not publically available either. All committee members agreed that definition of Group should be defined as "Group to be defined by SECP through notification from time to time."

Review of all Circulars

1. Requirement to Advertise Open End Schemes as per Circular 16, 2014

a) Scope

SECP's Circular 16 of 2014 sets the requirement for asset management companies to advertise open end collective investments schemes. The committee members reviewed the scope of the circular and analyzed its efficacy with the desired outcome. The members were of the view that scope of the circular need amendment to some extent in order to make promotional activities straightforward without undermining the objective of the circular.

The committee, in particular, suggested the deletion of the third paragraph of existing circular as it bounds the asset management companies to more stringent requirements and requires them to take approval as prerequisites even for public speeches, presentation in seminars and workshops

b) Definitive & Promising Terms in Advertisement

The circular 16 of 2014 prohibits the use of the terms which guarantee definitive or promising returns in the advertisement material of CIS unless the CIS has capital guarantee / protection feature in place. Such points in the circular were observed as contradictory to practicability. The committee was of the view that there is always a downside risk in almost every category of CIS. Instead, the members suggested certain amendment in the circular and some guidelines to be adopted which had earlier been provided to SECP by MUFAP.

c) Comparison of Performance

The committee discussed the requirements prescribed in the circular on performance comparison of different CISs. The members shared their views on possible methodology of advertising comparison of performance. The members suggested the performance advertisement should specifically mention the period to which the numbers relate. Moreover, the members proposed some other amendments in this particular point.

d) Performance Presentation

In order to make performance presentation more straightforward, the committee suggested eliminating the requirement of "Benchmark return" while presenting the performance presentation to the current as well as potential investors. The CISs use different types of benchmark which are most likely to be less relevant for the investors. Hence, the committee after careful consideration proposed the elimination of this requirement.



Furthermore, studying the circular, the members found some points regarding performance period in advertisement contradictory with each other. The members have drafted their recommendation in this regard to communicate to SECP.

e) Comparison with Peer Group Averages

Reviewing this point, the committee shared their views that requirement of comparison of a CIS with same category seems appropriate. However, the members did not agree on the requirement of same stability rating due to some technical and practical issues involved.

f) Rules Applicable to Advertisement through Bill Boards & Electronic Media

The requirements in the Circular 16, 2014 regarding advertisement through the subject media routes were found to be too rigid. The members discussed the efficacy of the space limit prescribed for advertisement disclaimer and suggested that there should not be such limits. Hence, they suggested for their exclusion. Moreover, the members proposed that a requirement for proper disclosure in advertisement (i.e. advertisement should be clear, explicit and understandable for audience).

g) Incidental Features

In order to develop and promote the new products, the asset management companies often incentivize the current and potential investors in different ways i.e by offering lucrative gifts. However, as per point 39 of the circular, the AMCs are likely to be restricted by adapting such strategies. The members casted a critical view on this and believed that such offers and schemes are helpful in bringing awareness of the products to the current and potential investors. Hence, recommendations for the exclusion of such “deemed unnecessary clauses” have been made.

2. Book Closure requirement as per Circular 11 of 2009

The technical committee Mutual Funds re visited the book closure requirement as per circular 11 of 2009, under which Collective Investment schemes are required for closure of register of unit holders for the purpose of declaration of dividend for a period not exceeding maximum time period as specified in the constitutive document for a payment of redemption proceeds to the unit holders. However, the members believed that this is not necessary in case of dividend distribution by open end schemes except in specific scenarios such as merger of funds or change of asset class where book closure is deemed essential. It was suggested that the requirement should be withdrawn. Finally, it was decided to write to appropriate bodies, KSE in particular, by MUFAP informing them about the development.

3. Requirement for Approval of Merger of Open End Schemes – Circular 20 of 2009

This circular requires the approval by a resolution passed by a majority of unit holders representing three fourth in value of the total outstanding units of the concerned schemes at a meeting called for the purpose. This maybe correct where the fund is facing cash flow issues and is being unable to settle. However, in case of open end funds, in normal circumstances, that requirement of the circular should not be made compulsory where the Asset Management Company advertises through well known newspapers, send letters to unit holders, and give required notice period to unit holders about the merger of the subject funds. The members hence proposed that the subject circular is no longer required and should be withdrawn.

4. Recommendation on KYC to SECP

The members of the technical committee had discussions on procedure of KYC process. The members also meticulously reviewed the methodologies adapted by other financial institutions and legal requirement in this regard, while developing a standardized format for all AMCs. Various options were considered such as obtaining a declaration from the customer and introducing a standardized form. Since the objective of this exercise was to make the process more convenient to the investors, it was decided that there should be standardized form and policy industry wide and an investor above a certain limit will be mandatorily required to submit certain documents and disclose source of income to AMCs.



5. Categorization of Open End Collective Investment Schemes – Amendments

The Securities and Exchange Commission of Pakistan (SECP) has issued a Circular No 03/2015, replacing clause 9(iii) of Circular 07, 2009 with amended clause. The new clause states that at least 25% of the net assets shall be invested in cash and near cash instruments which include cash in bank account (Excluding TDR) and treasury bills not exceeding 90 days maturity. However, income schemes which invest at least 70% of the net assets in government securities in accordance with investment policy stipulated in their constitutive documents, 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.

The committee raised its concern over the amended limits of 10%. The members believed that in order to diversify the portfolio and perform well, this amended limit of 10% should be allowed for all funds. The committee recommended to Board to submit this to SECP.



Member	Meetings Attended	Member	Meetings Attended
M. Habib-Ur-Rahman (Chairman)	1 out of 1	Mansoor Wahid	1 out of 1
Farid Ahmed Khan	0 out of 1	Shoaib Umer Farooq	1 out of 1
Mashmooma Z. Majeed	1 out of 1	Sohail Qadri	0 out of 1
Muhammad Abdul Samad	1 out of 1	Sanam Zaib	0 out of 1

ACTIVITIES' REPORT

VPS Units Pledge-ability

The committee had detailed discussion with regard to pledge-ability of VPS units to obtain loan / financing to meet the short term needs. This will enable the pension funds investor to acquire loans against the investment in VPS without redeeming units. The members discussed various technical aspects of the matter such as tax laws likely to be applicable in this facility, sources from where the loan can be sought, and application of this exercise in different categories of the pension. i.e. equity, debt and money market. The committee analyzed the possible methodology to make the process smooth. This requires certain regulatory amendments and the committee is actively working on it.

VPS vs Provident Funds

The committee had a meticulous session over the technical differences related to tax and employer control between VPS and Provident Funds. Both PF and VPS rules were brought to discussion and the members shared valuable viewpoints. The committee members, in particular, discussed the need of employer control in VPS schemes as there are certain practical issues being faced by pension fund managers during marketing phase. The members studied whether the control should be exercised on total contribution or on the contribution made by employer only. The members further analysed the tax impacts on the sub categories of VPS in case of redemption. The members proposed that once the pledge of VPS units is allowed the employer should have control on redemption of certain amount. This can be possible through an agreement between employee and employer. The Committee recommend to Boards that VPS units may be allowed to be pledged to employer.

VPS Website

The website to educate the investors about the benefits of the Voluntary Pension Schemes (VPS) was initiated by previous committee and soft launch was completed by this committee. The website contains detailed information on why retirement savings/pensions are important, along with VPS product details and how to invest, where to invest and why to invest. The highlight of the website is pension and tax simulator calculators making easier for public to be acquainted with the accumulation of their investment. The committee is still working to enhance features of the website and make the content of the product easier to access.

TERMS OF REFERENCE

- To review Acts, Ordinances, Rules and Regulations, Circulars pertaining to Retirement Saving Schemes on an ongoing basis and making recommendations to the SECP;
- To research on investment product of Retirement schemes;
- To run public awareness campaigns/sessions for VPS including launching of a dedicated website for VPS ;
- To review and make recommendations in the investment rules for Provident Fund(PF) and other retirement schemes;
- To review taxation issues relating to Retirement schemes.



Public Awareness & Education Committee (AD-HOC)

(2 meetings held in the period January 09, 2015 to June 30, 2015)

Member	Meetings Attended	Member	Meetings Attended
Imran Azim – Chairman	2 out of 2	Mohammad Shoaib	1 out of 2
Mir Muhammad Ali	2 out of 2	Mashmooma Z. Majeed	2 out of 2
Yasir Qadri	2 out of 2	Mansoor Wahid Bux	2 out of 2
Farid Ahmed Khan	2 out of 2	Shiraz Ahmed	2 out of 2

TERMS OF REFERENCE

- To design Public Awareness/Education Program for 2015.
- To prepare presentation on Pakistan for the AOIFA Conference held in March 2015 in Thailand
- To arrange AOIFA Conference in Pakistan in April 2016.

ACTIVITIES' REPORT

Public Awareness / Education Program

The committee members discussed various options to design and run a public awareness program. The committee unanimously agreed on mass advertisement campaign through electronic media. The members shared valuable ideas and views setting quality of the campaign a critical success factor. The purpose of the campaign is to promote / educate about "What is a Mutual Fund" without promoting any specific fund or category. A budget of Rs. 15 million was

prepared and submitted to Board along with tentative plan which the Board has approved. The agency is currently working on TVC options.

Presentation on Pakistan presented at Asia Oceania Investment Fund Association (AOIFA) Conference in Thailand – March 2015

20th Asia Oceania Investment Fund Association conference was held in Bangkok, Thailand in March 2015. This conference presented the participants with a remarkable opportunity to address and discuss the theme of building investment culture and the financial well-being of people which organized a series of panel discussion that allowed the participants to take an in-depth look at financial markets and a variety of issues related to the financial market conditions. The CEO of MUFAP, Ms Mashmooma Zehra Majeed represented Pakistan's mutual fund industry in the conference. Since 21st AOIFA conference is scheduled to be held in Pakistan, a presentation was made to the participants highlighting Pakistan.

21st AOIFA Conference in Pakistan in April 2016

21st AOIFA conference is going to take place in Pakistan next year in April 2016. The conference has a closed session format where delegates from 13 Asia Pacific countries discuss topics of mutual interest to learn and benefit from each other's experience.

The committee discussed and shared first draft agenda of the conference as well as met four event managers and recommended one to the Board. The Board has further sub-delegate authority to the Chairman, Senior Vice Chairman, Vice Chairman and Chief Executive to take all further decisions in this regard so the committee's role is completed in this project.



Member	Meetings Attended	Member	Meetings Attended
M. Habib-Ur-Rahman (Chairman)	1 out of 1	Khawar Iqbal	1 out of 1
Imran Azim - Vice Chairman	0 out of 1	Faisal Ali Khan	1 out of 1
Ahmed Ateeq	0 out of 1	Noman Soomro	0 out of 1
Mashmooma Z. Majeed	1 out of 1	Syed Zain Raza*	1 out of 1
Saqib Matin	1 out of 1		

*Member till January 16, 2015

ACTIVITIES' REPORT

Federal Budget Proposal for the year 2015-16

1. Dividend Received by Banking Company - Amendment in Seventh Schedule (Clause 6)

The clause 6 of seventh schedule deals with dividend received by Banking Company from its Asset Management Company. The Committee believes that this clause creates an anomaly. Taxation for dividends received by Banks from their asset management companies should be the same as if they receive dividends from other companies. Hence, proposal for removal of the clause has been made.

2. Tax on Bonus shares - Amendment in Clause 47B, Part IV of the Second Schedule

According to Sections 236M and 236N Bonus shares are taxable @ 5 percent of the specified value under FTR and the company issuing bonus shares is obliged to withhold tax from the shareholders. The committee unanimously agreed that since Mutual Funds and Pension Funds are exempt through Clause 47B from withholding from Dividend, Profit on Debt, Brokerage and Commission, Mutual Fund and Pension Funds should also be exempted from withholding of tax under Sections 236M and 236N)

3. Removal of FED and WWF for Tax Neutrality

The committee proposed that FED should be removed since FED on services is no different than sales tax on services since the taxable event is the same i.e. sales tax and FED on services are the identical tax. Investors in mutual funds are already paying sales tax and this is leading to double taxation. Also, Workers Welfare Fund (WWF) should not be imposed on Mutual Funds and Mutual Funds are not an establishment. Mutual Funds do not employ any workers. Mutual funds are a pass through vehicle. Even the Ministry of Labour supports the view that WWF levy is not applicable on Mutual Funds. Instead Asset Management Companies have employees, WWF is being imposed on it and accordingly paid and therefore WWF should not be imposed on Mutual Funds.

4. Taxation on Capital portion of Investment

The Committee discussed that through Finance Act 2014, the requirement for mandatory cash dividend by open-end mutual funds can adversely affect the taxability of unit holders who invest closer to the distribution or basically any time after the first day of the start of the year (ex dividend date). The cash dividend received by investor may have been paid out of his/her principal amount (brought in as element of income), which will result in extra payment of tax. The Committee recommended that this tax anomaly should be removed by FBR so that the principal component of investment is not taxed.

5. Dividend payable by stock funds

The committee members discussed that the dividend payable by Equity Funds is subject to tax at 12.5 percent when the Fund's capital gain is greater than dividend income. When compared

TERMS OF REFERENCE

- Taking up any matter relating to accounts/audit with Auditors, ICAP and SECP or any other authority as and when they arise;
- Making of Proposals for Federal and Provincial Budgets;
- Drafting of a long term tax policy of MUFAP To review taxation issues relating to Retirement schemes.
- Examining and resolving any tax related issues; and;
- Any other matter connected with Audit, Accounts and Taxation;



against direct investment through Capital Markets the rate of tax on dividend is 10 percent while the capital gain is taxable subject to holding period of the security. This tax anomaly should be removed in order to bring Equity Funds pari passu with direct investment in Capital Markets.

6. Sindh Sales Tax for services applicable on Mutual Funds

The committee members were of the opinion that Sindh sales tax should be same for all professional service providers. Currently service providers, other than Mutual Funds, are subject to 5% rate, whereas Mutual Funds are subject to 15% rate. The committee agreed to propose the uniformity of rates to the Board for consideration.

7. Consolidation of Mutual Funds as per IFRS 10

The members discussed the technical aspects and need of consolidation of Funds with their AMCs under IFRS 10. The members were of the opinion that consolidating funds with AMCs does not seem to produce fair view. Asset management companies should not consolidate the funds under their management along with their financial statements, as consolidation may lead to serious distortion and volatility in the financial statements of the Management Company which will be grossly misleading.

