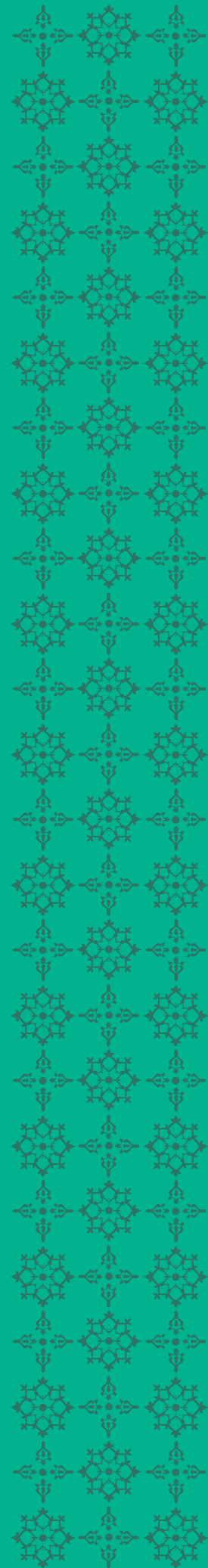


Views and Reviews





Message of SECP Chairman

Mr. Zafar-ul-Haq Hijazi

Chairman, Securities and Exchange Commission of Pakistan

I would like to congratulate the Mutual Funds Association of Pakistan (MUFAP) on publishing its yearbook for 2016. MUFAP's commitment to providing timely and accurate data to industry participants and the public is indeed commendable.

The mutual fund industry has seen its share of success and failure over the period of time. However, during the past few years we have witnessed significant growth within the sector, expanding from Rs. 24 billion at the time of establishment of MUFAP in 2001 to Rs. 490 billion in total assets under management as of June 2016. This has been a result of collaboration of all industry stakeholders who have shaped the way forward for the industry. However it is important to point out that the industry still lags behind in terms of expansion of distribution networks and expansion in products' range.

Despite its strong growth, the mutual fund assets represent less than 5% of the total banking deposits. In advanced economies, the size of mutual funds exceeds banking deposits. Similarly, assets under management as a percentage of GDP are under 2% in Pakistan. I believe that we still need to do more in terms of further expanding the mutual fund industry. Compared to other parts of the world, the level of awareness of mutual funds in Pakistan is still low. Even though the industry has progressed and grown immensely over the past few years, the bulk of the assets under management come from corporate investors. The awareness at the retail level and especially the small 'grass-root' level is still very low. The total volume of mutual fund industry pretty much reflects that the retail base of mutual fund industry is growing at a snail's pace. This tardiness may be attributed to low level of efforts being made for awareness by either individual asset management companies or by their representative forum.

People need to be made to realize that investing in mutual funds is an efficient way for them to meet their financial goals and not just a means of short-term financial gain. Given the current scenario, the investors may perceive investments in the capital markets to be risky, and hesitate to channelize their savings towards mutual funds. Thus, it is the responsibility of the mutual fund industry to recognize this issue and

instill that confidence in the minds of investors by reaching out to them and creating awareness about mutual funds as financial products, clearing up confusions and myths associated with mutual funds and positioning mutual funds as a new way of saving.

The need of the hour is to take the industry forward, and to really tap into the small retail investors instead of completely focusing on institutional clients who make sizeable investments in the funds with lesser efforts on asset management companies' (AMC) part. The mutual fund industry needs to realize that large number of retail investors not only result in increased assets under management but also enhance the stability of the funds and the industry in general, ultimately leading to reduction in the systemic risk. It is imperative that all AMCs come together and work towards creating awareness about mutual funds and their benefits for the investors. There is no doubt that mutual funds offer a great investment opportunity for individual investors and have a lot of potential in the Pakistani market.

If the industry wants to brand mutual funds as an efficient savings vehicle then it should be focused to deliver superior performance, introduce new products and give priority to the interests of the investor before its own. I encourage all the AMCs to consider expanding their networks both physically and digitally to gain access to retail investors. It is imperative for the AMCs to expand its outreach across the country and increase retail penetration within the sector, making it mandatory for the AMCs to establish its own distribution/branch network across Pakistan.

With new developments in the capital market, global integration and evolving regulatory environment, it is imperative that we keep pace with these changes by preparing ourselves for future challenges. Realizing its role for the development of the industry, SECP during the year has introduced a more conducive regulatory regime to facilitate sustained growth of the fund management industry in Pakistan. In collaboration with the MUFAP and other industry stakeholders, the SECP has taken a number of specific initiatives, which are aimed at strengthening the mutual funds industry and safeguarding investor interests. These measures include ban on management fee sharing with investors by the AMCs, ban on charging of sales load to investors who directly approach AMCs or make online investment using the website of AMCs, capping the maximum limit of sales load at 3% from 5% and reducing the management fee. Moreover with a view to encourage AMCs to increase retail participation in funds, SECP has allowed reduction in SECP annual fee for mutual funds that have at least 1,000 retail investors and more than 50% of its net assets are held by individual investors. Furthermore, as an effort towards increasing retail penetration SECP is considering to take measures for promoting independent distributors network with minimum equity and regulatory requirements.

One of the significant distinguishing features of mutual funds is disclosure, not only of the value of investment on a daily basis through NAV, rather disclosure of a whole range of information at periodical frequencies, be it portfolio composition or expense ratio. In fact, transparency and disclosure are the foundation of mutual funds. It is on the basis of information, provided as transparently as possible through offering documents and other reports, that investors place their savings with mutual funds. It is therefore necessary that the industry develop the culture of sharing information not just to comply with regulatory requirements but also to enhance the level of transparency and credibility. Hence, the collaboration of all industry stakeholders is essential to achieve this objective and the SECP is committed to provide every possible support in this regard.

The SECP looks forward to working closely with the MUFAP to ensure a fair, transparent and efficient mutual funds and pension funds industry which efficiently mobilizes and channelizes the savings and investments of households and public at large.

