



## **COMMITTEE REPORTS**

# ACCOUNTS AND TAXATION COMMITTEE

## (2 MEETINGS HELD IN THE YEAR OCTOBER 1, 2017 - SEPTEMBER 30, 2018)

Members	Meetings Attended	Members	Meetings Attended
Mr. Razi-ur-Rahman Khan (Chairman)	2 of 2	Mr. Mohsin Ahmed	1 of 2
Mr. M. Habib Ur Rahman	2 of 2	Mr. Naved Hanif	1 of 2
Mr. Imran Azim	1 of 2	Mr. Muhammad Khawar Iqbal	0 of 2
Ms. Mashmooma Z. Majeed	2 of 2	Mr. Muhammad Murtaza Ali	0 of 2
Mr. Noman Ahmed Soomro	2 of 2	Ms. Misbah Wahid	2 of 2
Mr. Hamza Saboor	1 of 2	(Member & Secretary to Committee)	

### 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 or Provincial Budgets;
- Drafting of a long term tax policy of MUFAP;
- Examining and resolving any tax related issues; and
- Any other matter connected with Audit, Accounts and Taxation;

### ACTIVITIES' REPORT

The Taxation committee drafted and discussed the tax proposals to be submitted to FBR for the Federal Budget as follows:

#### i. Minimum Tax at rate of 8% under Section 153(1)(b) of the Income Tax Ordinance, 2001

Minimum tax was imposed on Asset Management Companies consequent to the omission of the Clause 79 of Part IV of the Second Schedule of the Income Tax Ordinance of 2001 through Finance Act 2015. The provision of the section 153(3)(b) of the Ordinance has become effective for companies providing services and 8% tax deductible at source on payment of service under section 153(1)(b) of the Ordinance has become the MINIMUM TAX instead of advance tax. Prior to this amendment the minimum tax for companies providing services including Asset Management Companies (AMCs) was the TURNOVER TAX which was 1% under section 113 of the Ordinance. This discriminatory amendment has resulted in an adverse effect on majority of the Asset Management Companies (AMCs) and other companies providing services and 11 out of 19 AMCs with small AUMs, with losses or new entrants in the industry are adversely impacted through the levy of minimum tax which is multiple times what their actual tax liability should have been on corporate rates. AMC's by their very nature of business cannot pass the additional tax impact to their customers i.e. funds they manage as AMCs revenue (primarily management fee for managing mutual funds) is regulated by SECP and the same is capped. AMCs cannot increase their management fee to adjust for minimum tax. Also an overall expense ratio of the fund is also capped as per NBFC Regulations. Federal Government has provided exemption to companies from applicability of minimum tax at rate of 8% under section 153(1)(b) of the Income Tax Ordinance, 2001 through promulgation of Income Tax (Second Amendment) Ordinance, 2015 regarding application of minimum tax on service provider companies for certain corporate service providers in 18 sectors through insertion of Clause 94 in Part IV of the Second Schedule. MUFAP proposed that Asset Management Companies and REIT Management Companies licensed by SECP and Trade Associations licensed under the Trade Organization Rules, 2013 should also be included in the same list of companies exempted from applicability of minimum tax at rate of 8%.

#### ii. 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. Since Mutual Funds and Pension Funds are exempt through Clause 47B from withholding of tax on Dividend, Profit on Debt, Brokerage and Commission, Mutual Fund and Pension Funds should also be exempted from withholding of tax on Bonus shares under Sections 236M and 236N.

**iii. Removal of requirement to obtain Valid Tax exemption certificate for claim of exemption u/s 150, 151 and 233 of the Income Tax Ordinance 2001 in the cases where statutory exemption under clause 47B of Part IV of Second Schedule is available**

MUFAP proposed that Federal Board of Revenue (FBR)'s May 12, 2015 clarification/internal memo to its field offices should be withdrawn and specific exemption certificate should not be required from FBR every six months/ year in cases of those entities that have been provided statutory exemption in Clause 47B of Part IV of Second Schedule of the Income Tax Ordinance.

The mutual funds face practical difficulties in seeking exemption certificates from the tax authorities, and during the course of seeking such exemption, their taxes are also withheld at source due to delay in issuance of exemption certificate from the departments. Besides that, there is low probability that the refunds of tax deducted due to delayed issue of exemption certificates by the tax authorities would ever be received from FBR as already many years' refunds are outstanding without being received back.

## TECHNICAL COMMITTEE - MUTUAL FUNDS

(5 MEETINGS HELD IN THE OCTOBER 1, 2017 - JUNE 30, 2018)

Members	Meetings Attended	Members	Meetings Attended
Mr. Muhammad Shoaib (Chairman)	5 of 5	Mr. Farid Ahmed Khan	3 of 5
Ms. Mashmooma Z. Majeed	5 of 5	Mr. Khaldoon Bin Latif	2 of 5
Mr. Yasir Qadri	4 of 5	Mr. Muhammad Saqib Saleem	1 of 5
Dr. Amjad Waheed	4 of 5	Ms. Misbah Wahid	5 of 5
Ms. Maheen Rahman	4 of 5	Ms. Quratulain Ali (Secretary)	5 of 5

### 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;
- Periodic and adhoc review of standardized trust deed and offering document
- To research on investment products in international markets
- Drafting regulations for new product development

### ACTIVITIES' REPORT

The Technical Committee over the year worked on the following items:

#### a) Charging of Marketing and selling expenses

The Technical Committee proposed to Board to propose to SECP to allow charging of Selling and Marketing expenses to all categories of Funds in all branches in all cities and to remove the time limit of December 2019. The Board took up the same with SECP throughout the year and all recommendations were accepted except for the removal of time limit which is still under discussion with SECP.

#### b) Proposed Amendments in REIT Regulations

A subcommittee comprising of Dr. Amjad Waheed, Mr. Yasir Qadri, Mr. Mohammad Shoaib and Ms. Mashmooma Z. Majeed was formed to review and propose amendments in the REIT Regulations which were shared with SECP after Board's approval and extensive meetings were held with SECP and other stakeholders over the year on those.

#### c) Allowing Funds to be introduced based on CPPI methodology

The Committee proposed to the Board to write to SECP re-allow the launch of mutual funds based on CPPI methodology. The Board took up the same in the SECP-MUFAP meetings and the SECP issued a Circular on November 24, 2017 making amendments in Circular 18 of 2015 and allowing such funds to be introduced again.

#### d) Removal of liquidity requirements for equity funds introduced through Direction No. 2 of 2017

The Committee proposed that requirement of maintaining 5% cash and near cash instruments in equity funds and fund of funds as well as arranging committed credit lines from banks/ DFIs was only adding to the cost of these funds and therefore proposed that these should be removed. The Board took up the matter with SECP and the same was withdrawn by SECP after detailed discussions.

#### e) Sales load being charged by CIS& VPS

The Committee proposed that AMCs should be allowed to charge sales load if the investor approaches directly for investment at its own office/ branch or on the transactions done online or through a website as there are costs associated with the same also. The SECP after much deliberations and discussions, agreed and allowed AMCs to charge sales load maximum upto 3% of NAV per unit if the investor approaches directly for investment and upto maximum of 1.5% of NAV per unit where the transactions are done online or through a website.

The Committee further proposed that the same should also be allowed on VPS and a Directive was issued on December 07, 2017 allowing PFM to charge maximum front end load up to 3% of the contribution if a participant approach directly for investment and may charge maximum front end load up to 1.5% if the investor carries out the transaction online or through website.

The same was however amended by SECP through Direction 7 of 2018 wherein SECP disallowed PFM to charge front end fee on subsequent contribution made by participant directly, through employer or online. The Committee proposed that if sales persons are not incentivized in collecting such payments, they might stop seeking those contributions which will eventually bring decline to the VPS industry which is already in nascent stage. The Board has taken this up with SECP.

#### **f) Employees Contributory Funds (Investment in Listed Securities) Regulations, 2018**

The Committee reviewed and prepared comments on the Draft Employees Contributory Funds (Investment in Listed Securities) Regulations, 2018 which were shared with SECP after approval of the Board. A number of meetings were held with SECP including two roundtable sessions with all stakeholders and majority of the comments proposed by MUFAP were incorporated in the final notified Employees Contributory Funds (Investment in Listed Securities) Regulations, 2018 except for the following which MUFAP has taken up with SECP:

1. Investment in Debt CIS & Money Market CIS should be 20% of employee fund size and not 20% of investment limit in single AMC
2. Investment in Equity CIS should be 10% of employee fund size and not 10% of investment limit (which comes to 3% of fund size)
3. Investment Limits for Money Market Funds should be same as direct investments in Bank Deposits and Government Securities, i.e. upto 100% since the underlying investments are the same.

#### **g) Shariah Adviser Regulations 2017**

The Committee reviewed the Shariah Adviser Regulations 2017 and shared comments to the Board on the same for onward submission to SECP. One of the major points outstanding is allowing of Islamic Banks and other institutions to act as Shariah Advisors for mutual funds instead of forming a special purpose entity to act as a Shariah Advisor.

#### **h) Draft Shariah Governance Regulations 2018**

A sub committee comprising of Mr. Muhammad Asad, Mr. Muhammad Asim, and Mr. Sajjad Anwar and their respective Shariah Advisors Mr. Farhan Ul Haq Usmani and Mr. Muhammad Naveed Alam met to review and finalize the comments on the Draft Shariah Governance Regulations, 2018 which were then shared with SECP after the approval of the Board. A consultation session was held on the Draft Shariah Governance Regulations, 2018 with SECP's Islamic Finance Department who had agreed to some points and agreed to review the others and is now pending at SECP.

**ANTI MONEY LAUNDERING (AML)/KNOW YOUR CUSTOMER (KYC) (AD HOC COMMITTEE)  
(3 MEETINGS HELD IN THE PERIOD (OCTOBER 20, 2017 - SEPTEMBER 30, 2018))**

Members	Meetings Attended	Members	Meetings Attended
Mr. Muhammad Saqib Saleem (Chairman)	2 of 3	Mr. Aly Osman	2 of 3
Ms. Mashmooma Z. Majeed	2 of 3	Mr. Muhammad Murtaza Ali	2 of 3
Mr. Asif Mehdi	3 of 3	Ms. Misbah Wahid	3 of 3
Mr. Hussain. A Naqvi	3 of 3		

**TERMS OF REFERENCE**

- To identify areas where the SBP KYC requirements are different from SECP and align them.
- To review the AML law and requirements in detail regarding due diligence and documentation requirements.
- To propose a minimum standardisation of documents required for KYC under the
- To review the guidelines and documentation requirements of KYC and AMC prescribed by State Bank of Pakistan and propose a similar regime for Mutual Funds/ NBFCS.

The Board in its meeting held on October 20, 2017 formed an ad-hoc committee to streamline KYC and AML requirements industry wide to help address the challenges being faced by the industry in implementing a sound and robust KYC & AML system as well as to remove the inconsistencies within the Industry.

The Committee proposed to the Board a guideline of thresholds and parameters that can be used by the AMCs as a yardstick to trigger suspicious nature of transactions and initiate the process of verification with the customer. The Committee also prepared and presented to the Board an investor wise comparison of documentations required as per KYC Circular and the SBP guidelines along with a list of minimum standardised documents that could be sufficient evidence for the fulfilment of those requirements.

The Committee also proposed to the Board to collectively purchase an AML transaction monitoring system, which will focus on identification of suspicious patterns of transactions system and place it centrally at MUFAP since it would be really useful and cost effective to help the AMCs comply with AML regulatory requirements. The Committee also proposed amendments in the 'Sahulat Sarmayakari' circular which requires minimum documentation of obtaining CNIC or basic KYC Documentation:

- Enhance the limit of 0.8 million under the said Circular to Rs. 2 million.
- The word 'Balance' under the said Circular should be replaced with words 'investment amount each year'

The Committee is currently in the process of drafting standardized guidelines for documentation, monitoring and reporting of AML transactions under the newly issued Anti Money Laundering and Countering Financing of Terrorism Regulations, 2018, so that uniform practices are followed which will also help to improvise the process.