



## CEO REVIEW

### **Ms. Mashmooma Zehra Majeed, CFA, FRM**

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#### **Industry Overview**

The advent of year 2020, put the whole world at a war against a pandemic, with a certainty of an uncertain future. The COVID-19 pandemic has shaken the foundations of global economies and affected the everyday lives of global communities. With casualties ranging in hundreds of thousands and reported cases in millions, no country - from the most developed to the poorest - has been spared. Pakistan has been comparatively lucky as over 200,000 cases were confirmed till June 30, 2020 which in the context of the global space is a tiny percentage of the total global cases, which is interesting given that our population is the sixth highest. The Government and the two apex Regulators, the State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP) need to be commended as they took very proactive measures on the monetary and fiscal side as well as the regulatory side and have initiated some major relaxation programs. The Government was very quick to provide social safety nets in the form of Ehsas Program while the SBP & SECP were very quick in issuing various relaxations towards borrowers and instructions to banks to facilitate borrowers to avoid the impact of defaults in such an extreme situation. To curtail the spread of the pandemic, a partial lockdown - that included restrictions on air travel, inner-city public transport, religious/social gatherings and the closure of all schools and non-essential businesses - was imposed in March, 2020 and gradually eased from May 2020 onwards. This disrupted domestic supply and demand, as businesses were unable to operate and consumers curbed expenditures, which specifically affected services and industries and the challenges remain both on the fiscal and monetary planning side as the economy tries to return back to normalcy.

In these challenging times, the mutual funds industry managed to show resilience and posted significant increase over the previous year. As interest rates were slashed by 625bps over a six-month period and the equity markets continued its roller coaster ride throughout the year, investors were seen shifting towards money market funds from other categories. Money market funds (both Conventional and Shariah Compliant) therefore dominated the AUMs of the industry with the largest share of the mutual fund industry at 41%. Income Funds (both Conventional and Shariah Compliant) held the second largest industry share at 23%, followed by Equity Funds (both Conventional and Shariah Compliant) with industry share of 21%.

In March 2020, two Exchange Traded Funds (ETFs) were launched in Pakistan. Subsequently in October 2020, two more ETFs have been launched. The introduction of ETFs is a big leap for the capital markets as the product offers significant growth potential due to its transparent nature, low cost and embedded ability to track the index by following a passive investment strategy. An ETF is an investment instrument that combines the tradability of shares with the investment attributes of an open-end mutual fund. An ETF holds a basket of securities (e.g. stocks) that generally tracks an underlying index. Globally, ETFs are a popular and accessible source of investment for investors, be it a savvy investor or a novice investor.

As at June 30, 2020, there were 19 Asset Management Companies managing 300 funds including Open End Funds, Exchange Traded Funds and Voluntary Pension Schemes with total assets under management (AUM) of PKR. 772.696 bn.

Details	As at June 30, 2019	As at June 30, 2020
Total Assets under Management of Industry (PKR In million)	539,970	772,696
Total Number of Funds	290	300
Total Number of AMC's	19	19

Data on Funds Under Management and Portfolios:

Industry wide Net Assets (PKR millions)	As at June 30, 2019	As at June 30, 2020
Open End Funds	512,839	741,869
Voluntary Pension Schemes	25,891	30,740
Close End Funds	1,240	-
Exchange Traded Funds	-	87

During the year, the industry witnessed a launch of 30 new funds including two Exchange Traded Funds (ETFs). 18 funds matured and 2 were merged during the year.

Around 45 thousand individual investors new accounts were added the year primarily in equity funds. In percentage term, the holdings of individual in open-end mutual funds in term of AUMs (excluding fund of funds) has decreased slightly and now stands at 37.22% versus 40.07% last year. In unique terms based on UIN position shared by NCCPL (i.e. inventory balance of multiple accounts in different funds & AMCs is counted as one) the number of investors have increased by 11.5% from 243,413 as on June 30, 2019 to 271,226 as on June 30, 2020.

### Key Regulatory developments during the year to promote growth of the Mutual Funds Industry

The year started on a positive note for the industry as the Securities and Exchange Commission of Pakistan (SECP) and its Policy Board introduced a number of reforms in the Regulatory process to facilitate the ease of doing business as well reducing the regulatory fees leading to positive boost to the industry despite the challenging pandemic affecting the economy and capital markets. This was in continuation with the ongoing reforms that the SECP has been taking over the past couple of years to develop and promote the mutual funds industry and the capital markets.

A very proactive approach was continued by SECP and 8 meetings of MUFAP's Board were held with Chairman SECP, Commissioner Specialized Companies Division (SCD) SECP and SCD team over the year leading to a resolution of a number of outstanding issues as well as initiating discussions on new matters. We strongly believe that continued interaction between SECP and MUFAP would be mutually beneficial in the development and growth of this industry and enable us to address issues at the very start and move forward in progressive manner.

### i) Non-Banking Finance Companies and Collective Investment Vehicles Act, 2020

SECP issued Draft Non-Banking Finance Companies and Collective Investment Vehicles Act, 2020. The Draft Act is a modernized, dedicated and consolidated framework for the non-banking finance companies and collective investment vehicles (notified entities). MUFAP did a comprehensive review of the same and shared its comments

which were discussed in detail in a meeting held for all stakeholders and hopefully will be incorporated in the final version.

## **ii) Master Circular for Mutual Funds**

MUFAP compiled a Master Circular of all the existing/applicable circulars issued by the Securities and Exchange Commission of Pakistan (SECP) for Collective Investment Schemes/ Mutual Funds from time to time. The same was notified by SECP on June 30, 2020.

## **iii) Circular No. 2 of 2020 - Requirements for Assessing Suitability and Risk Categorization of CIS**

MUFAP and SECP jointly worked to develop detailed guidelines for assessing suitability and standard risk categorization of Collective Investment Schemes (CIS) to curb mis-selling of mutual fund products to the investors. The same were issued by SECP on February 06, 2020. Subsequent to these, MUFAP prepared guidelines for standardized implementation of the Circular 2 of 2020 in particular the point 5 of the said circular which deals with escalation mechanism for validation of product suitability for an investor profiled as a low risk investor and is investing in a high risk category fund. The same was shared with the Industry after receiving No Objection from the SECP. The risk categorization and the suitability process will hopefully help the investors better understand the risks associated with each category of funds and help them invest according to their risk/return needs.

## **iv) Draft Amendments in the NBFC Regulations 2008 and VPS Rules 2005**

During the year, the SECP also introduced a number of amendments in the NBFC Rules, NBFC Regulations and VPS Rules, with the intention to shifting the operational details of VPS Schemes from the VPS Rules into the NBFC Regulations. MUFAP reviewed and shared comments on the same which was discussed and largely incorporated in the drafts. The draft amendments pertaining to VPS Rules are waiting to be notified by the relevant Ministry subsequent to which the SECP will notify the amendments in the NBFC Regulations.

## **Major Initiatives under taken during the year**

### **i) Ethical selling guidelines**

Ethical selling guidelines for sales teams of the AMCs have been prepared by MUFAP and circulated amongst all MUFAP members for implementation along with the NOC of SECP on the same. These guidelines aim to standardize the selling process and introduce certain checks and measures to with the aim to reduce the incidents of mis-selling. As the next step, MUFAP is drafting the MUFAP Code of Ethics which will be applicable on all AMCs and their personnel and aim to reinforce ethical behavior in all aspects of the business.

### **ii) Proposed process flow for investments in mutual funds through SCR Accounts and Roshan Digital Accounts**

During the year, MUFAP worked on a process flow for investment in mutual funds from non-residents investors through SCR Accounts on a repatriation basis as well as through the Roshan Digital Accounts. The same has been drafted in extensive consultation with Central Depository Company of Pakistan Limited, some major SCRA Operating Banks and with the complete support and guidance of the SECP and is currently under review of the State Bank of Pakistan for final approvals. The process flow covers the investments process in open end mutual funds both directly and through custodian banks as well as the redemption process. Investments in traded on an exchange funds such as REITs and ETFs have also been covered in the process. Appropriate amendments have been proposed in the Foreign Exchange Manual to enable these. SBP has been positive and receptive in the discussions held with them and we are hopeful that the same will be approved and implemented shortly, offering non-resident Pakistanis and foreigners a wide range of investment opportunities in the mutual funds of Pakistan.

### **iii) Online Mutual Funds Distribution Platform MoU with the CDC**

During the year, MUFAP worked with CDC on the development of an online digital mutual funds platform, a Fin Tech Solution to enhance the investor outreach for AMCs by providing a convenient, informative and interactive medium for investors to invest in a wide range of mutual funds offered by different Asset Management Companies. The underlying objective of the proposed solution is to boost the growth of the mutual fund industry and to promote the savings culture in Pakistan by attracting more investors through an online easy-to-use medium. An MOU was signed between MUFAP and IT Minds (wholly owned subsidiary of CDC) to develop and operate this platform. MUFAP will be acting as the knowledge partner in helping to develop the process flows for this platform as well as sharing data and statistics.

#### iv) Marketing and Awareness Campaign

During the first half of the year, MUFAP worked extensively on the development of large scale marketing and public awareness campaign. The campaign aimed at creating awareness about mutual funds through the electronic media. The first advertisement was drafted to cover the the basics of mutual funds with the intention to educate the general public about mutual funds and address the lack of knowledge on mutual funds/ fear of the unknown. MUFAP proposed to SECP to allow a mandatory contribution of 0.02% (i.e. 2 paisas from the funds allowable selling and marketing expenses) towards a mass scale Investor awareness campaign which would be pooled with MUFAP who will be leading the execution of the campaign. Unfortunately, the mandatory contribution wasn't approved and the plan was delayed further due to Covid-19 pandemic. MUFAP is now relooking at the plan to look at low cost effective means including digital avenues and requesting its members to join the same on a voluntary basis.

##### Public Awareness Sessions

Pre Covid 19, two awareness sessions were conducted:

- **Orientation to Mutual Fund Workshop at CDC**

CEO MUFAP conducted workshop on "Orientations of Mutual Funds" organized by Central Depository Company of Pakistan (CDC) at CDC house for their account holders.

- **Awareness Session at AKU Hospital on Savings through Mutual Funds and Voluntary Pension Schemes**

CEO MUFAP participated in session on "Investment and savings" for Aga Khan University Hospital (AKU) employees organized by AKU management.

MUFAP is now working on conducting awareness sessions and webinars through digital modes.

#### v) Conversion of MUFAP into SRO

During the year, MUFAP shared with SECP a revised plan for conversion of MUFAP into an SRO in a phased manner and proposed conducting the following activities in the first phase to be launched over a period of three to six months after getting all approvals from SECP:

- Investor Education and Awareness
- Training and Certification programs for financial professionals
- Complaint handling of customers
- Codes, Guidelines and Standardization
- Providing research and development assistance to members and investing community
- Centralized KYC Repository function so members and investors are facilitated

MUFAP has proposed to allow charging a fee to the mutual funds (an amount between 0.005% to 0.01% to be charged to the Funds as fee (variable based on expense requirements to keep net balance zero)) to enable the SRO to build up its infrastructure and resources to handle complaints and spend on investor awareness & education. Financial independence is extremely important for the SRO to function efficiently and independently. The proposed plan is under consideration of the SECP and we are hopeful to see progress in the coming year.

#### Taxation Matters

##### Minimum Tax on Asset Management services at 8% under Section 153(3)(b) of The Income Tax Ordinance 2001

A long outstanding issue of Minimum Tax being imposed on the asset management companies at 8% was resolved during this year with the Finance Act 2020 adding the Asset Management Companies to the list of 18 sectors included under the reduced rate of 3%.

#### Sindh WWF

Sindh WWF has been long outstanding and MUFAP has been taking up the matter with Sindh Revenue Board for a number of years now to clarify that SWWF is not applicable on mutual funds and voluntary pension schemes as they are not financial institutions and do not employ any workers. SRB has written twice to SECP on the

subject to confirm the same and they have confirmed that mutual funds are not financial institutions and we are hopeful that the SRB will accept the same and issue the clarification.

### Board Meeting and Attendance

MUFAP Directors have been extremely generous in giving their time and expertise for industry issue. During the year 2019-2020, 17 meetings were held of Board of Directors. The attendance record at the meeting of the Board of Directors for 2019-2020 is summarized below:

No.	Name of Directors	No. of Meetings attended (out of 17 meetings held)
1	Ms. Maheen Rahman, Chairperson	17
2	Mr. Hasnain Raza Nensey, Senior Vice Chairman	14
3	Mr. Muhammad Saqib Saleem, Vice Chairman	13
4	Ms. Mashmooma Zehra Majeed, Chief Executive	17
5	Mr. Yasir Qadri	17
6	Mr. Abdul Samad	15
7	Dr. Amjad Waheed	13
8	Mr. Mir Adil Rashid	13
9	Ms. Sadaf Kazmi	8
10	Mr. Alee Khalid Ghaznavi	4
11	Mr. Imran Motiwala	3

### Way Forward

The world is redefining itself post COVID-19. The post Covid-19 world is seeing a sharp increase in the internet based financial solutions and the Mutual Funds Distribution Platform is just the first step in this regards. With a large demographic still not privy to the benefits of internet based financial solutions, the investment in such solutions by Asset Management Companies will prove profitable. We have already seen a sharp increase in the online activity of the AMCs platforms during the lockdown period and that's only expected to increase as with Covid-19 and its social impact, the future is about to move past the traditional physical brick and mortar model. MUFAP is also in the process of revamping its website to gear it up to the changing times. Harnessing technology effectively is the way forward.

### Acknowledgment

I would like to thank SECP for their continued support in the development of the mutual fund industry. I am particularly grateful to Mr. Aamir Khan, SECP Chairman, Mr. Farrukh H. Sabzwari, Commissioner SECP, Mr. Shauzab Ali, Commissioner SECP, Ms. Khalida Habib Executive Director, Ms. Musarat Jabeen, Executive Director, Mr. Waseem Khan, Additional Director and entire AMCs and VPS teams at SECP for their proactive role and support in dealing with issues relating to mutual fund industry and VPS.

I would like to thank the MUFAP Chairperson Ms. Maheen Rahman, Senior Vice Chairman Mr. Hasnain Raza Nensey, Vice Chairman Mr. M. Saqib Saleem, Board of Directors, and MUFAP committee members for their dedication, teamwork and valuable support. Lastly my thanks and appreciation for the management team of MUFAP for their continued hard work and commitment.