



**Committee
Reports**



ACCOUNTS AND TAXATION COMMITTEE

(2 MEETINGS HELD IN THE YEAR OCTOBER 01, 2019 - SEPTEMBER 30, 2020)

Members	Meetings Attended	Members	Meetings Attended
Mr. Muhammad Abdul Samad (Chairman)	2 of 2	Mr. Zafar Iqbal Ahmed	2 of 2
Mr. Imran Azim (Vice-Chairman)	1 of 2	Mr. Salman Shafiq Hashmi	1 of 2
Ms. Mashmooma Z. Majeed	2 of 2	Mr. Umair Ahmed	1 of 2
Mr. Khalid Mehmood	2 of 2	Mr. Noman Qurban	0 of 2
Mr. Muhammad Kamran Ahmed	2 of 2	Mr. Tanzeel Abdul Sattar	0 of 2
Mr. Saqib Matin	2 of 2	Ms. Misbah Wahid (Member & Secretary to the Committee)	2 of 2

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 discussed and drafted the tax proposals to be submitted to FBR for the Federal Budget for consideration of the Board as follows;

i. Budget Proposals

The Committee discussed the taxation issues to be included in the Budget Proposals for MUFAP and recommended the following to the Board for consideration:

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

The Committee proposed that the 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 the rate of 8% and chargeable to the reduced rate of 3%.

B. Inclusion of Section 150A in the withholding section for mutual funds and pension funds

The Committee proposed that the section pertaining to profit on Sukuks should be included in the exemption from withholding tax section for exempt entities such as mutual funds and VPS.

The committee also discussed a few other matters and gave its recommendations as follows;

- 1) To take up the matter of refund of already deducted withholding taxes of the mutual fund industry due to delayed issue of exemption certificate by the tax authorities after the announcement of Federal Budget 2020 -2021 (in August 2020);
- 2) Simultaneously in August 2020 to take up with FBR to enhance the validity of exemption certificates issued by the tax authorities from six months to at least one year after the announcement of Federal Budget 2020 -2021;
- 3) To respond vide a letter from MUFAP to KPK Revenue Authority in respect of Registration Notice from Pakhtunkhwa Revenue Authority requiring registration under KP Sales Tax Act.

TECHNICAL COMMITTEE - MUTUAL FUNDS

(1 MEETING HELD IN THE YEAR OCTOBER 01, 2019 - SEPTEMBER 30, 2020)



Members	Meetings Attended	Members	Meetings Attended
Mr. Yasir Qadri (Chairman)	1 of 1	Mr. Shoaib Ahmed	1 of 1
Mr. Hasnain Nensey (Vice-Chairman)	1 of 1	Mr. Sohail Ahmed	1 of 1
Ms. Mashmooma Zehra Majeed	1 of 1	Ms. Tanveer Fatima	1 of 1
Mr. Ayub Khuhro	1 of 1	Mr. Zahid Hussain Vasnani	1 of 1
Mr. Muhammad Noman	1 of 1	Mr. Zeeshan Quddus	1 of 1
Mr. Rehan Saif	1 of 1	Ms. Misbah Wahid	1 of 1
Mr. Salman Shafiq	1 of 1	Mr. Moiz Majeed	0 of 1
Mr. Salman Muslim	1 of 1	Ms. Quratulain Ali (Secretary to Committee)	1 of 1
Mr. Shariq Mukhtar Hashmi	1 of 1		

TERMS OF REFERENCE

- To review Acts, Ordinances, Rules and Regulations, Circulars pertaining to mutual funds & VPS on an ongoing basis and making recommendations to the SECP;
- Periodic and ad hoc 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 issues/items:

a) Standardized process and script for AMCs to implement for the Standard Phone call/SMS/Emails required under Circular No.2 of 2020: Requirements for assessing suitability & risk categorization of collective investment schemes (CIS)

The Committee discussed and proposed guidelines and standardized text for implementation of CBC/Email/SMS to be sent to the customer for escalation purposes in compliance of the Point 5 of the Circular 2 of 2020. The Committee proposed that having one wording across the industry would help the investor understand their risks better across different AMCs and enable the industry to adhere to the risk profiling requirements in a better manner. The Committee members also recommended that requirement of validation for product suitability will only be done the first time an investor who has been profiled as low risk is investing/converting into a high risk product.

The Committee also discussed that the main question to ask in the risk profiling is what the investor expects from his/her investments and suggested to the Board that the following question may be considered with a 50% weightage in the risk profiling questionnaire:

To seek high returns, I can take;

- Very low risk
- Low risk
- Moderate risk
- High risk

The Committee also suggested other questions which the members may adopt. The Board however didn't agree to the proposal and decided not to suggest any standardized questionnaire or any question with a higher weightage than others.



b) VPS Growth Plan

The Committee discussed and proposed that a recommendation should be made to SECP to define Income Payment Plans as both receiving income at investors choice frequency or being reinvested and to include Growth Plans separately in addition to Income Payment Plans at a later stage when VPS comes under the ambit of NBFC Regulations. The Growth Plans would not be making regular payments but rather the amount will be accruing over the period. For the interim, the Committee recommended to the Board that all the existing Growth Plans should be renamed as Income Plan with reinvestment option.

c) VPS Allocation Policy

The Committee reviewed the suggestion from an investor which was shared by SECP for comments that there should be an option for investor to change their reallocation of investment (fresh contribution) from a specific date without changing the existing portfolio composition and agreed with the suggestion that reallocation and frequency thereof should be the investors choice and proposed to SECP amendments in the relevant clauses of the VPS Rules and Circulars to allow that.

KYC/AML AND ETHICS COMMITTEE

(5 MEETINGS HELD IN THE YEAR OCTOBER 01, 2019 - SEPTEMBER 30, 2020)



Members	Meetings Attended	Members	Meetings Attended
Mr. Muhammad Shoaib	5 of 5	Mr. Khurram Salman	3 of 5
Mr. Yasir Qadri	3 of 5	Mr. Muhammad Saqib Saleem	2 of 5
Ms. Mashmooma Z. Majeed	5 of 5	Mr. Raheel Rahman	2 of 2
Mr. Asif Mehdi	5 of 5	Ms. Tanveer Fatima	2 of 2
Mr. Hadi Hassan Mukhi	5 of 5	Ms. Misbah Wahid (Member & Secretary to the Committee)	5 of 5
Mr. Salman Muslim	4 of 5		

TERMS OF REFERENCE

- The objective of the Committee is to ensure the standardization of processes and uniform application of AML framework (AML/CFT Regulations, Guidelines, SROs, Circulars, FAQs etc.) and NBFC Regulations particularly in relation to suitability assessment of customers along with standardization and introduction of Code of Ethical Practices.

ACTIVITIES' REPORT

MUFAP firmly believes in protecting and furthering investor interest to gain his/her confidence which is fundamental to industry's prosperity;

1. Standardized Risk Profiling Mechanism

Standardized Risk Profiling mechanism along with draft risk profiling questionnaire in light with international best practices were drafted and shared with the Board but the same were not agreed upon at the Board. The Committee also in conjunction with the Technical Committee worked on the guidelines and standardized text for implementation of CBC/Email/Sms to be sent to the customer for escalation purposes in compliance of the Point 5 of the Circular 2 of 2020. The Committee recommended that requirement of validation for product suitability will only be done the first time an investor who has been profiled as low risk is investing/ converting into a high risk product and proposed mechanism for escalation and validation for all modes of investments. The same was implemented after approval of the Board and No Objection from the SECP.

2. Ethical Selling Guidelines

The committee worked on developing the ethical selling guidelines to address the mis-selling issues that were arising after reviewing the international best practices. The guidelines make recommendations on the qualification of the sales personnel as well has defined a selling and review process so that adequate checks and measures can be taken by AMCs to ensure that the right product is sold to the investor. The guidelines are available on MUFAP's website and have been shared with the industry after SECP's NOC on the same.

MUFAP Code of Ethics

MUFAP Code of Ethics is being drafted which will be applicable on all AMCs and their personnel. The Committee is also reviewing the CFA Asset Manager Code to finalise the same. MUFAP Code of Ethics will be issued in light of the Rule 7(1)(j) of NBFC Rules 2003 which specify that each member of the association has to follow a code of conduct specified by such association approved by the Commission.

In the meanwhile, the Committee discussed and suggested standardization of the following across the Industry:



i. Cut off timings

Cut off timings for receiving investments should be standardized across the entire industry for all fund categories after which if any investment form is received, NAV of next day will be applicable. The cut off timings should be standardized in order to ensure that the NAV is issued up to a particular time as well as to give time to the fund manager to manage inflow and outflow in the fund accordingly. The Committee proposed that the cut off timing in equity funds should be before the close of the equity market so savvy investors cannot arbitrage and compromise the interest of the existing investors. The Committee proposed that for conversion of funds from one fund to another for example from money market fund to equity fund or vice versa, if the investment form is received after close of equity market then NAV of next day for both the funds should be applicable.

ii. Disclosure of Total Expense Ratio and other charges

The Committee discussed the disclosure of the Total Expense Ratio on AMCs and MUFAPs website. The Committee was of the view that Total Expense Ratio should be disclosed in terms of what is the intent to charge on daily per annum basis, as an absolute percentage of the net assets or as percentage of returns and not on an actual basis. The idea of such disclosure is to inform that investor of what will be charged from him going forward and not what already has been charged. The Committee suggested that the Total Expense Ratio shall be broken into two broad sections; one section related to that expenses that are charged and are decided by the AMC such as management fee, selling and marketing expenses and operational expenses and other section related to other expenses which are beyond the control of the AMC like taxes, other charges/fees levied by CDC and SECP. The Committee was of the view that AMCs shall give schedule of charges for the next 15 days on the website of both MUFAP and the AMC and to give disclosure of historical data on the website of MUFAP, however it should be consistent across the industry, while the AMC can give prospective schedule of charges on its website. Investor has more relevance on prospective schedule of charges and not historical data and quite a lot of investors visit the website of MUFAP for checking the returns and expenses therefore, the information should be similar on both the websites. And AMCs should also follow the discipline of giving 30 days prior notice to all unit holders before increasing/ decreasing any expenses under its control.

iii. Trading Discipline

The Committee recommended that AMCs shall ensure that electronically time stamped mechanism is put in place which specifies the order size and price of assets with the name of fund in case of assets with the name of fund on a pre trade basis for executions under the Single UIN or in case of assets which are dealt in OTC market.

iv. Advertisement

The Committee members noted that some AMCs blatantly copy other AMCs advertisements including the format and material without even changing the words which is against the spirit of competitions and it dilutes the branding and market positioning of the original AMC. The Committee members suggested that the same can be controlled through persuasion methodology.