



**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
SPECIALIZED COMPANIES DIVISION
NON BANKING FINANCE COMPANIES DEPARTMENT**

No. NBFCD/MF /CIRCULAR/538/2010

July 07, 2010

Circular No. 16 of 2010

SUBJECT: CATEGORIZATION OF OPEN-END COLLECTIVE INVESTMENT SCHEMES

1. This Circular is in continuation of Circular 7 of 2009 dated March 6, 2009 requiring all Asset Management Companies ("AMC") to assign an appropriate category to open-end collective investment schemes ("schemes") under their management and to align the underlying investment portfolio accordingly.
2. It has been highlighted by certain AMCs as well as Mutual Funds Association of Pakistan ("MUFAP") that due to adverse market conditions the portfolio of a significant number of Schemes could not be aligned as per the investment criteria of the assigned category.
3. In view of the difficulties faced by AMCs, the Commission has decided to prescribe specific disclosure requirements for the schemes which hold investments that are non-compliant either with the minimum investment criteria specified for the category assigned to such schemes or with the investment requirements of their constitutive documents. Therefore, in order to enable the investors to make a well informed decision, the Commission in exercise of the powers conferred under Section 282B (3) of the Companies Ordinance, 1984, hereby directs all AMCs to make the following minimum disclosures for open-end schemes which hold non-compliant investments.

(a). Disclosure in the Offering Documents (risk section)

"There may be times when a portion of the investment portfolio of the Scheme is not compliant either with the investment policy or the minimum investment criteria of the assigned 'Category'. This non-compliance may be due to various reasons including, adverse market conditions, liquidity constraints or investment –specific issues. Investors are advised to study the latest Fund Manager Report specially portfolio composition and Financial Statements of the Scheme to determine what percentage of the assets of the Scheme, if any, is not in compliance with the minimum investment criteria of the assigned



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Category. The latest monthly Fund Manager Report as per the format prescribed by Mutual Funds Association of Pakistan (MUFAP) is available on the website of the Asset Management Company (AMC) and can be obtained by calling /writing to the AMC."

(b) Disclosure in Advertisement

The following disclosure shall be made separately from the standard risk disclosure prescribed for Schemes:-

"The XYZ Scheme holds certain non-compliant investments. Before making any investment decision, investors should review the latest monthly Fund Manager Report and financial statements of the Scheme particularly the details of non-compliant investments and Risk Factors."

(c) Disclosure in the Fund Manager Report, Quarterly, Half-Yearly & Annual Financial Statements

Details of non-compliant investments with the investment criteria of assigned category

<i>Name of non-compliant investment</i>	<i>Type of investment</i>	<i>Value of investment before provision</i>	<i>Provision held if any</i>	<i>Value of investment after provision</i>	<i>% of Net Assets</i>	<i>% of Gross Assets</i>
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4. AMCs shall:

- i. ensure that a copy of latest monthly Fund Manager Report ("FMR") of the scheme containing the above stated minimum disclosures is available at its website and a copy of said FMR shall be submitted to the Commission simultaneously.
- ii. disclose the credit quality/asset quality of portfolio of the Scheme in monthly FMR if the portfolio of the scheme contains any debt securities or other credit exposure.



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- iii. ensure that a scheme which presently does not maintain the requisite cash and near cash investments as specified for the relevant category, complies with the said requirement by December 31, 2010. However, any fresh liquidity in the scheme shall first be utilized to meet the minimum cash requirements instead of making any other fresh investments. Notwithstanding the above, the Trustee of such scheme shall not hold redemption(s) if usage of such cash for redemptions results in the cash balance falling below the minimum requirement. However, the AMC shall ensure that other assets are sold in due course of time (if possible without impacting investors' interests) or cash is generated through new subscriptions to comply with the minimum cash and near cash requirements. For the purpose of this circular the minimum cash and near cash requirements shall be calculated on the basis of the average for each calendar month.
5. For the purpose of peer group analysis or return comparison of the schemes within the same category, the basis should be underlying portfolio and not merely the assigned category.
6. Trustees of the schemes shall monitor compliance with the requirements of this circular on an ongoing basis and shall report to the Commission on a timely basis, in case there is any non-compliance or deviation.
7. This Circular shall come into force with immediate effect. In case of any clarification, AMCs, Trustees and MUFAP are advised to approach the Commission.

SALMAN ALI SHAIKH
Commissioner (SCD)

Distribution

- I. Chief Executives of all Asset Management Companies
- II. Mutual Funds Association of Pakistan
- III. Trustees of Collective Investment Schemes