



SECP

SECURITIES AND EXCHANGE  
COMMISSION OF PAKISTAN

# CONSULTATION PAPER

**Reimagining the Pricing Framework for Open-End  
Mutual Funds**

*Introducing Swing Pricing to Strengthen Fairness,  
Transparency, and Investor Protection*



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## Executive Summary

The Securities and Exchange Commission of Pakistan (SECP), as the apex regulator of the mutual fund industry, has consistently remained forward-looking and steadfast in its commitment to promoting transparency, and continually recognizes the critical importance of ensuring fair, robust, and transparent valuation mechanisms within the mutual fund sector. In this regard, given the open-ended structure of mutual funds, units are continuously issued and redeemed at the prevailing Net Asset Value (NAV). While this feature ensures liquidity and ease of entry and exit for investors, it may give rise to significant transaction costs in cases of sizable subscriptions or redemptions. Such costs including brokerage expenses, market impact, and bid-ask spreads are ultimately absorbed by the fund itself, thereby resulting in an unintended dilution of returns for the remaining, non-transacting unitholders.

To address this potential inequity and further strengthen investor protection, several leading jurisdictions have adopted the concept of Swing Pricing. This mechanism enables a fund to adjust its NAV to reflect the actual cost of buying or selling underlying assets triggered by significant investor subscriptions or redemptions. By doing so, the transaction costs arising from such activity are fairly allocated to the investors whose actions generate them, rather than being absorbed by existing unitholders. This approach safeguards long-term investors, promotes equitable treatment across the investor base, and reinforces transparency within the mutual fund framework.

In light of the foregoing, this Consultation Paper sets out the proposal for introducing a structured Swing Pricing framework within Pakistan's mutual fund industry. The objective is to further enhance fairness, transparency, and investor protection by ensuring an equitable allocation of transaction costs arising from significant investor flows.

In preparing this paper, the SECP has undertaken a review of international regulatory practices, including frameworks adopted in India, Singapore, Malaysia, and other developed markets, and has examined various swing pricing models such as full swing, partial swing, and threshold-based approaches. Based on this comparative assessment and the specific dynamics of the domestic market, a calibrated framework tailored to Pakistan's regulatory and operational environment is being proposed.

Through this Consultation Paper, the SECP seeks stakeholder feedback on the proposed structure, disclosure requirements, governance safeguards, and implementation parameters. The overarching objective is to strengthen investor confidence, promote equitable treatment of unitholders, and enhance the resilience and integrity of the mutual fund sector, particularly during periods of heightened market volatility or liquidity stress.



Open-End CIS offer daily liquidity through continuous issuance and redemption at NAV;



Large subscriptions or redemptions trigger additional market transactions, resulting in brokerage, bid-ask spreads, and market impact costs;



**Problem:**  
**Absence of Adjustment Mechanism as such costs are borne by non-transacting unitholders, causing NAV dilution.**



## 1. Background

Open-ended Collective Investment Schemes (CIS) are structured to facilitate continuous subscriptions and redemptions at the prevailing NAV, thereby offering investors liquidity, flexibility, and ease of entry and exit.

While this feature is fundamental to the attractiveness of mutual funds, it also gives rise to dilution risk. Large-scale subscriptions or redemptions may require the fund to undertake substantial buying or selling of underlying assets, resulting in transaction costs such as brokerage charges, bid-ask spreads, and market impact costs. In the absence of an appropriate mitigating mechanism, these costs are absorbed by the fund and indirectly borne by the remaining, non-transacting unitholders, leading to an erosion of their returns and creating concerns regarding equitable treatment within the fund structure. This phenomenon, known as NAV dilution, compromises the principle of fairness that underpins the CIS structure.

NAV dilution becomes particularly pronounced during volatile or illiquid market conditions, where bid-ask spreads widen and transaction costs increase disproportionately. In such scenarios, redemptions or subscriptions by a few large investors can materially affect fund performance and adversely impact long-term investors who remain invested.

Hence, the introduction of a structured Swing Pricing framework within Pakistan's mutual fund industry emerges as a necessary and forward-looking reform. Such a framework would strengthen fairness, enhance transparency, and reinforce investor protection by ensuring that transaction costs arising from significant subscription or redemption flows are equitably borne by the investors generating those costs, rather than being diluted across existing unitholders.

## 2. Objective

The primary objective of this Consultation Paper is to assess the feasibility, operational practicality, and regulatory implications of introducing a Swing Pricing framework within Pakistan's mutual fund industry. It seeks to evaluate whether such a mechanism would effectively mitigate dilution risk, ensure equitable allocation of transaction costs, and strengthen investor protection in open-ended CIS. The paper shall broadly cover following objectives:

- Ensuring the equitable treatment of investors by preventing NAV dilution caused by trading costs attributable to significant inflows or redemptions.
- Provide Asset Management Companies (AMCs) with a regulatory mechanism to align NAV calculation with the true transactional cost of underlying portfolio adjustments.
- Enhance market stability by discouraging speculative and short-term trading behaviour in open-ended funds.
- Align Pakistan's mutual fund regulatory framework with international best practices and IOSCO principles of fair valuation and investor protection.

The introduction of swing pricing is also intended to complement SECP's ongoing efforts to strengthen risk management practices, improve liquidity oversight, and promote long-term sustainability and fairness in the asset management sector.



### 3. Scope

The scope of this consultation paper primarily encompasses all open-ended CIS registered with the SECP. These schemes, by virtue of their structure, are subject to transaction and liquidity costs arising from investor subscriptions and redemptions, which may have an impact on the interests and returns of existing unitholders.

This paper examines:

1. The current absence of a swing pricing mechanism in Pakistan and the resulting risks to investor fairness.
2. International precedents and models currently in use by leading regulatory authorities.
3. The operational and governance considerations necessary for effective implementation.
4. A proposed regulatory framework for Pakistan, including a phased adoption strategy, disclosure requirements, and governance safeguards.

### 4. Models of Swing Pricing

Swing pricing can be implemented using different models depending on market dynamics, regulatory priorities, and fund characteristics.

**Full Swing Pricing** refers to a mechanism whereby the NAV of a scheme is adjusted for all subscription and redemption transactions, irrespective of the size or magnitude of the net investor flow on a given dealing day. Under this approach, every inflow or outflow results in a NAV adjustment to reflect estimated trading, market impact, and liquidity costs, thereby ensuring that such costs are borne by the transacting investors rather than being diluted across existing unitholders. Since adjustments are applied uniformly without the need to assess materiality thresholds, the framework becomes relatively straightforward to administer once operational systems are calibrated.

However, this approach may also lead to frequent NAV adjustments, even in cases involving minor or routine transactions. Additionally, small investors transacting in limited amounts may experience NAV adjustments that are disproportionate to the actual liquidity impact of their transactions, potentially affecting investor perception and transaction efficiency.

**Partial Swing Pricing** is a mechanism under which the NAV of a scheme is adjusted only when the net subscription or redemption activity on a particular dealing day exceeds a pre-defined threshold. This threshold is typically expressed as a percentage of the scheme's total net assets and is calibrated to capture flows that are sufficiently large to generate material trading, liquidity, or market impact costs.

Under this approach, routine or small-scale investor transactions do not trigger a NAV adjustment. However, when aggregate net inflows or outflows cross the specified threshold, the NAV is "swung" by applying a pre-determined swing factor designed to reflect the estimated cost of executing the necessary portfolio trades.



Partial Swing Pricing therefore seeks to strike a balance between investor fairness and operational practicality. By targeting only significant flows that are likely to materially affect the scheme's transaction costs, it protects existing unitholders from dilution while avoiding unnecessary price adjustments for minor transactions. This model is often regarded as proportionate and efficient, as it minimizes administrative complexity while preserving the core objective of equitable cost allocation.

**Hybrid or Dynamic Swing Pricing** combines both approaches, applying partial swing pricing during normal market conditions and full swing pricing during periods of market stress. This model offers flexibility and aligns the extent of adjustment with prevailing market liquidity and volatility conditions.

Determining the swing factor, the percentage by which the NAV is adjusted, is central to this process. The swing factor is typically based on estimates of transaction costs, market impact, and liquidity profiles of the fund's underlying assets. Fund boards/ Investment Committees periodically review these parameters to ensure they remain aligned with market realities.

Governance frameworks in developed markets mandate that swing pricing policies, thresholds, and swing factors must be approved by fund boards, reviewed by trustees, and disclosed to investors. The SECP envisions adopting a similar governance model for Pakistan's mutual fund industry.

## **5. International Precedents**

### **5.1. India**

The Securities and Exchange Board of India has introduced a structured and hybrid swing pricing framework applicable to open-ended debt schemes to mitigate dilution risk arising from significant net outflows. The framework provides for partial swing during normal market conditions based on thresholds prescribed by AMFI and scheme-specific parameters determined by AMCs and mandates full swing during periods of Heightened Market Volatility as declared by SEBI. The swing factor is applied to both subscribing and redeeming investors when triggered, subject to limited exemptions (e.g., small redemptions at PAN level), while scheme performance continues to be computed on the unswung NAV.

The framework further requires Board-approved policies, detailed disclosures with illustrations in the Scheme Information Document & Statement of Additional Information, and a clearly defined governance structure, thereby ensuring transparency, investor protection, and equitable allocation of transaction costs.

### **5.2. Malaysia**

The Securities Commission Malaysia (SC), through its Guidelines on Unit Trust Funds, permits management companies to implement a swing pricing mechanism as a dilution mitigation tool. The framework is principle-based, allowing fund managers to adjust the NAV to pass on transaction costs arising from net capital flows to transacting investors, thereby safeguarding the interests of existing unitholders subject to documented governance standards, disclosure



requirements, and defined operational parameters to ensure fairness and transparency. Key provisions are as below:

- A formal swing pricing policy must be established, outlining methodology, thresholds, and whether partial or full swing will apply; and
- The mechanism, including the maximum swing factor, must be disclosed in the fund's deed and prospectus.

### 5.3. Singapore

The Monetary Authority of Singapore (MAS) allows swing pricing under the Code on Collective Investment Schemes, emphasizing full disclosure and governance oversight. Fund managers may determine swing thresholds and factors based on liquidity, portfolio composition, and historical flow volatility. Swing factors typically range from 0.3% to 2.0% of fund assets. The MAS framework promotes flexibility while maintaining strict investor communication standards to ensure transparency.

### 5.4. United States and European Union

The U.S. Securities and Exchange Commission (SEC) approved swing pricing in 2018 for open-ended mutual funds. Although adoption remains limited due to operational challenges, the measure is recognized as a valuable liquidity management tool. In the European Union, swing pricing is widely implemented under the UCITS Directive, with countries such as Luxembourg, France, and Ireland incorporating it as a standard industry practice. European regulators emphasize its role in reducing redemption-driven sell-offs and improving market resilience.

## 6. Pakistan - Pre-Swing vs Post-Implementation (Swing Pricing)

Dimension	Status Quo (Pre-Swing)	Post-Implementation (Swing Pricing)
Allocation of transaction costs	Spread across all unitholders - dilution of stayers	Attributed to transacting cohort via swing price
NAV accuracy (after costs)	does not reflect true exit/entry economics in large flows	Closer to realizable value incl. liquidity costs
Run-risk in stress	Higher (forced selling, wider spreads)	Lower (costs internalized; flows stabilize)
Behavioural incentives	Timing/arbitrage incentives persist	Reduced incentives to game dealing point
Operational complexity	Lower	Moderate (calibration, monitoring)
Systemic externalities	Amplifies stress	Dampens stress transmission

## 7. Proposed Approach for Pakistan

**Mitigating Dilution Risk and Enhancing Investor Protection** - To ensure consistency, transparency, and fairness in pricing, the SECP proposes the introduction of swing pricing in Pakistan through a Board-approved policy framework administered by each AMC under regulatory guidance. AMCs to adopt swing pricing for all open-end CIS except for Fixed Rate/Return Schemes, Capital Protected Schemes and Fixed Rate/Return Plans.

## 8. Key Features of the Proposed Framework

### 8.1. Balancing Flexibility with Crisis-Response Mechanism – Adoption of a Hybrid Framework:

It is being proposed to allow Partial Swing during normal market conditions while mandating Full Swing during period of Heightened Market Volatility. This ensures operational flexibility in stable markets and automatic stabilization during stressed conditions.

### 8.2. Ensuring Structural Consistency Across Open-Ended Schemes – Applicability to Perpetual CIS and Investment Plans:

The framework shall apply to perpetual CIS and Investment Plans, ensuring consistency across open-ended structures that are exposed to daily subscription and redemption flows.

### 8.3. Industry Standardization and Uniformity – MUFAP-Prescribed Category-Wise Swing Thresholds:

MUFAP will prescribe and periodically review category-wise Swing Thresholds, ensuring uniform application while maintaining responsiveness to evolving market conditions.

### 8.4. Scheme-Specific Calibration Based on Actual Costs – AMC-Determined Swing Factors:

AMCs will determine the quantum of Swing Factor based on reasonable and consistent estimates of transaction costs, including bid-ask spreads, brokerage, taxes, and market impact, allowing alignment with scheme-specific characteristics.

### 8.5. Strengthened Governance and Accountability – Board-Approved Policies and Procedures:

Each AMC must adopt Board-approved policies governing swing pricing to ensure internal oversight, consistency, and regulatory accountability.

### 8.6. Safeguarding Investor Rights and Transparency – Fundamental Attribute Change Requirement:

Implementation of swing pricing for normal market conditions requires incorporation in constitutive documents and will be treated as a Fundamental Attribute Change under Regulation 44(7), ensuring proper investor notification and compliance safeguards.



## 8.7. Fair and Non-Discriminatory Treatment – Uniform Application of Swung NAV

Once triggered, the adjusted NAV will uniformly apply to all subscriptions and redemptions on the relevant dealing day, preventing selective or discretionary treatment of investors.

## 8.8. Preserving Benchmark Integrity and Return Comparability – Performance Based on Unswung NAV:

Scheme performance will continue to be calculated on unswung NAV to avoid distortion in reported returns and maintain comparability across periods.

## 8.9. Transparency and Informed Decision Making – Enhanced Disclosure Requirements:

Comprehensive disclosures in Offering Documents, Supplemental ODs, Key Fact Statements, Fund Manager Reports, financial statements, and AMC websites will ensure that investors clearly understand the mechanism, trigger conditions, and impact on NAV.

## 9. Expected Pakistan-Specific Effects (12–18 Months Post Adoption)

1. **Dilution materially reduced** in mutual funds, with measurable improvement in the dispersion between model (pre-trade) and realized (post-trade) performance during high-flow days.
2. **Flow volatility dampened** as opportunistic timing diminishes; AMCs report fewer large same-day “in-and-out” transactions.
3. **Secondary-market impact mitigated** during local rate/credit events; bid–ask spike transmission into NAVs becomes less pro-cyclical.
4. **Governance uplift** via standardized Board policies, trustee reviews, and clearer investor disclosures, fostering higher confidence and comparability across funds.
5. **Minor operational lift** (data, controls, documentation) offset by **higher fairness** and **greater resilience** at the fund and industry level.

## 10. Benefits of Adoption

The introduction of swing pricing in Pakistan is expected to deliver several long-term benefits to the mutual fund ecosystem. First, it enhances investor protection by ensuring that transaction costs arising from large inflows or redemptions are borne by the investors responsible for those flows, rather than by existing investors. This restores fairness and aligns costs with causation.

Second, swing pricing contributes to greater NAV integrity, as the adjusted NAV better reflects the true realizable value of a fund’s assets after accounting for liquidity and trading costs. This ensures that investors make investment decisions based on fair and accurate valuation.

Third, swing pricing can serve as a macroprudential tool, reducing market stress during periods of volatility. By discouraging large-scale redemptions in falling markets, it mitigates the risk of forced selling and contributes to overall market stability.



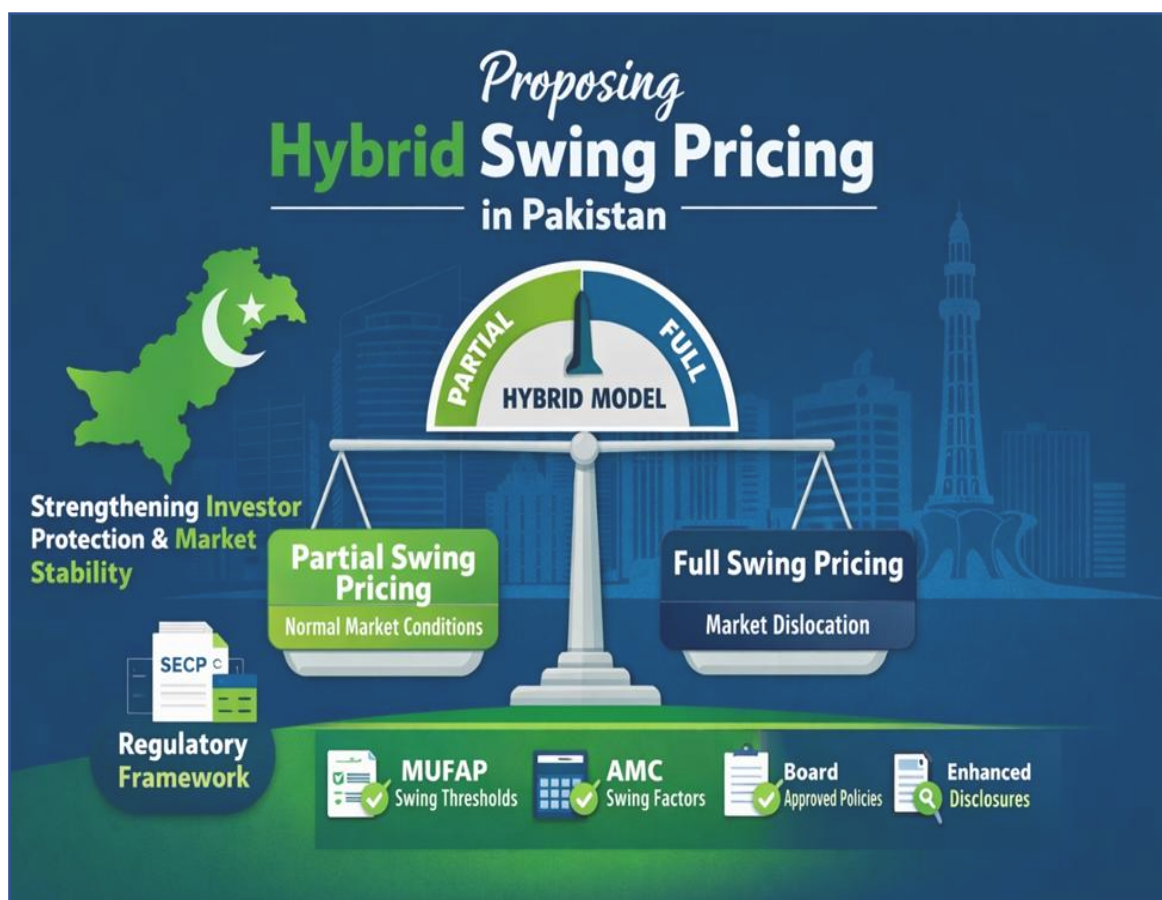
Fourth, the mechanism promotes alignment with global standards, harmonizing Pakistan's mutual fund regulations with those of jurisdictions such as India, Malaysia, and the European Union, thereby enhancing the credibility and competitiveness of the domestic asset management industry.

Finally, it fosters long-term investor confidence, as investors perceive the regulatory environment to be robust, fair, and transparent. This confidence is fundamental to deepening the mutual fund industry's penetration and supporting the growth of Pakistan's capital markets.

## 11. Conclusion and Way Forward

The adoption of swing pricing represents a progressive enhancement to Pakistan's mutual fund regulatory framework. It directly addresses issues of NAV dilution and investor fairness, aligning the country's asset management practices with international standards of transparency and prudence.

The SECP proposes to develop detailed regulatory guidance on the operationalization of swing pricing, including governance standards, threshold calibration, disclosure requirements, and periodic reporting mechanisms. In this regard, draft circular is enclosed as **Annexure – A** for review and feedback.



## Annexure – A

No. SCD/CIRCULAR/ /2026

March , 2026

### Circular No. \_\_\_\_\_ of 2026

**Subject: Permission to Asset Management Companies for Adoption of Swing Pricing Mechanism**

The Securities and Exchange Commission of Pakistan (the “Commission”), in continuation of its mandate to enhance investor protection, and promote the stability of the mutual fund industry, in exercise of the powers conferred under sub-section (3) of section 282B of the Companies Ordinance, 1984 (XLVII of 1984) read with Regulation 57(1) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, hereby specifies that the Asset Management Companies (“AMCs”) implement Swing Pricing as a liquidity management and anti-dilution tool in case of perpetual Collective Investment Schemes (CIS) and/or underlying perpetual Investment Plans (PIP), subject to the following conditions:

- (I). The Swing Pricing framework shall be applicable for the respective Schemes as per hybrid mechanism as follows:
  - a. Partial Swing Pricing shall be applied under normal market conditions in accordance with the parameters specified under this Circular; and
  - b. Mandatory Full Swing Pricing shall be triggered during periods of heightened market volatility.
- (II). The AMCs shall have laid down policies and procedures pertaining to swing pricing which are approved by board of AMC;
- (III). For normal market conditions:
  - a. The constitutive documents of the respective CIS shall expressly contain an enabling provision authorizing the AMCs to implement Swing Pricing in accordance with the applicable regulatory framework;
  - b. The Mutual Fund Association of Pakistan (MUFAP), shall determine and prescribe category-wise Swing Thresholds for Collective Investment Schemes; Provided that Such Swing Thresholds shall be reviewed at least on a semi-annual basis, or earlier if warranted by market conditions, and any revisions thereto shall be applied uniformly across the industry and intimated to the Commission in a timely manner:

Explanation: “Swing Threshold” means the level of net subscriptions or redemptions, expressed as a percentage of the Scheme’s Net Assets, which triggers the application of Partial Swing Pricing;

- c. AMCs shall decide on the applicability of swing pricing and the quantum of swing factor depending on scheme specific issues:

Explanation: “Swing Factor” means the percentage adjustment applied to the NAV for the purposes of Swing Pricing;

d. The Swing Factor shall be determined on a reasonable and consistent basis, reflecting estimated transaction costs, bid-ask spreads, brokerage, taxes, and, where material, market impact costs;

e. AMCs may, if they desire so, implement the swing pricing framework for normal period, after incorporating clauses pertaining to the same in their Supplemental Offering Documents and the same shall be considered as a Fundamental Attribute Change of the scheme in terms of regulation 44(7) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

- (IV). During periods classified as Heightened Market Volatility: MUFAP shall develop objective criteria and a standardized framework for identifying periods of Heightened Market Volatility and, where warranted, submit its recommendation to the Commission. The Commission may, based on such recommendation or suo motu, declare the existence of Heightened Market Volatility and notify the applicability of full Swing Pricing for such specified period as it may determine.
- (V). Upon activation of the Swing Pricing framework and application of the applicable Swing Factor whether under normal market conditions or during a period of Heightened Market Volatility, the Net Asset Value (NAV) adjusted for such Swing Factor shall uniformly apply to all subscriptions and redemptions processed on the relevant dealing day;
- (VI). The AMCs shall incorporate comprehensive disclosures, including appropriate illustrations, in the respective offering documents/supplemental offering documents and Key Fact Statements clearly explaining the operational mechanism of the Swing Pricing framework, the circumstances under which it may be triggered, and its consequential impact on the NAV for both subscribing and redeeming investors;
- (VII). The performance of the respective Scheme shall be calculated and disclosed on the basis of the unswung NAV, without giving effect to any adjustment arising from the application of the Swing Factor;
- (VIII). AMCs shall, in the event that the Swing Pricing framework has been applied to a Mutual Fund Scheme, disclose the NAV adjusted for the applicable Swing Factor, along with the corresponding impact on performance, in the prescribed format within the respective Scheme Fund Manager Report and respective periodic financial statements. Such disclosure shall also be prominently displayed on the website of the AMC for the relevant Scheme:

Sr.No.	Name of the Scheme	Category of the Scheme	Period of applicability	Unswung NAV	Swing Factor Applied	No. of investors Impacted	Whether optional or Mandatory

\_\_\_\_\_  
Commissioner (SCD)

**Distribution:**

1. Chief Executives of All Asset Management Companies.
2. Mutual Funds Association of Pakistan.
3. Trustees of Collective Investment Schemes

# Thank You.

Thank you for taking the time to review our consultation paper.

We look forward to your valuable comments and feedback, which will contribute to the collective benefit of the mutual/pension fund industry.

## For Feedback and Comments

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