

**GOVERNMENT OF PAKISTAN**  
**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**

-.-.-

*Islamabad, the 17<sup>th</sup> January, 2018*

**NOTIFICATION**

**S. R. O. 34 (I)/2018.** – The following proposed draft Employees Contributory Funds (Investment in Listed Securities) Regulations, 2018, proposed to made by the Securities and Exchange Commission of Pakistan in exercise of powers conferred by section 512 read with sub-clause (ii) of clause (b) of sub-section (2) of Section 218 of the Companies Act, 2017 (XIX of 2017), is hereby published for information of all persons likely to be affected thereby and notice is hereby given that objections and suggestions, if any, received within fourteen days from the date of notification of these regulations will be taken into consideration, namely:-

**1. Short title, commencement and application.** – (1) These Regulations shall be called the Employees Contributory Funds (Investment in Listed Securities) Regulations, 2018.

(2) They shall come into force at once.

(3) These Regulations shall apply to all provident funds, contributory pension funds or any other contributory retirement funds constituted by a company or where a trust has been created by a company to manage such funds in respect of all the investments made by company or trust, as the case may be, in bonds, redeemable capital, debt securities or instruments issued by a statutory body, units of collective investment schemes registered as notified entities with the Commission, and in listed securities including shares of companies, bonds, redeemable capital, debt securities and equity securities.

(4) Within one year from the date of commencement of notification of these Regulations, all investments from the provident fund, contributory pension fund or any other contributory retirement fund constituted by a company or where a trust created by a company with respect to provident fund, contributory pension fund or any other contributory retirement fund, as the case may be, shall be brought in conformity with the provisions of these Regulations.

(5) In these Regulations, all words and expressions used but not defined shall, unless there is anything repugnant in the subject or context, have the same meanings as are assigned to them in the Companies Act, 2017(Act No. XIX of 2017), the Non-Banking Finance Companies (Establishment Regulations), 2003 and the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

**2. Definitions.–** (1) In these Regulations, unless there is anything repugnant in the subject or context, –

- (a) “Act” means the Companies Act, 2017 (Act No. XIX of 2017);
- (b) “Annexure” means annexure appended to these regulations;
- (c) “Contribution” means all the money contributed to fund or trust, as the case may be, either by the employees or the company or both;
- (d) “Cost of investment” means the value of investment made in listed securities out of fund or trust, as the case may be, including realized profit on such investments at cutoff date;
- (e) “Fair value of investment” means the value of investment made in listed securities out of fund or Trust, as the case may be, including unrealized profit on such investments at cutoff date;
- (f) “Fund” means a provident fund, contributory pension fund or any other contributory retirement fund constituted by a company for its employees or any class of its employees;
- (g) “Initial public offer” means the IPO of a company;
- (h) “Size of fund or Trust” means total assets or total contributions made to the contributory fund or Trust, as the case may be, including realized profit on such investments at cutoff date; and
- (i) “Trust” means a trust created under the Trust Act, 1882 (ACT NO.II OF 1882), by the company with respect to provident fund, contributory pension fund or any other contributory retirement fund;

**3. Limit for investment in listed securities.-** Where the Company or trust decide to make an investment out of the fund or Trust, as the case may be, in:

- (i) bonds, redeemable capital, debt securities or instruments issued by a statutory body; or,
- (ii) securities listed on Pakistan Stock Exchange, including shares of companies, bonds, redeemable capital, debt securities, equity securities and listed collective investment schemes registered as notified entity with the Commission under Non-Banking Finance Companies and Notified Entities Regulations, 2008;

such investments shall not exceed fifty per cent of the size of the fund or Trust, as the case may be, subject to the following limits, namely:-

- (a) total investment in bonds, redeemable capital, debt securities or instruments issued by a statutory body or listed debt securities, listed debt collective investment schemes and money market collective investment schemes registered as notified entity with the Commission under Non-Banking Finance Companies and Notified Entities Regulations, 2008, shall not exceed fifty per cent of the size of the fund or Trust, as the case may be; and
- (b) total investment in listed equity securities and listed equity

collective investment schemes, registered as notified entity with the Commission under Non-Banking Finance Companies and Notified Entities Regulations, 2008, shall not exceed thirty per cent of the size of the fund or trust, as the case may be.

**4. Conditions for investment in listed securities.-** Where the Company or trust decide to make, out of fund or Trust, as the case may be, investment in:

- (i) equity securities of companies listed on Pakistan Stock Exchange;
- (ii) bonds, redeemable capital, debt securities, collective investment schemes or similar instruments listed on Pakistan Stock Exchange; or,
- (iii) bonds, redeemable capital, debt securities or instruments issued by a statutory body;

such investment shall be subject to the following conditions, namely:-

- (a) where an investment is made in equity securities of listed companies, it shall be made only where such companies,—
  - (i) have a minimum operational record of three years; and
  - (ii) have exhibited average total return on investment, not less than prevailing risk free rate defined as the rate on which 6 months T-Bill are issued + 50 basis point at the time of investment.

**Explanation.** The “total return” and “average total return” in these regulations shall be calculated as follows:-

**Total Return =**

**(Value of investment at the end of the year – Value of investment at beginning of the year) + Dividends / Value of investment at beginning of the year**

**Average total Return =**

**total return year 1+ total return year 2+ total return year 3**  
**3**

- (b) where investment is made in bonds, redeemable capital, debt securities or instruments issued by a statutory body or listed debt securities of a company:
  - (i) such securities shall be assigned a minimum rating of

“AA-” by a credit rating company licensed with the Commission and with at least a stable outlook at the time of investment;

- (ii) such investment in a particular company shall not exceed 10 percent of the size of the fund or trust, as the case may be, at the time of making investment;

Provided that the Commission may, from time to time, change the minimum rating of a security assigned in this clause.

- (c) where investment is made in collective investment schemes which may invest in listed debt securities, the investment policy of such scheme shall be in line with the criteria given in clause (b);
- (d) where investment is made in listed money market collective investment schemes, it shall be made only in those money market schemes which have been assigned a minimum rating of “AA-” by a credit rating company licensed with the Commission and with at least a stable outlook at the time of investment;

Provided that the Commission may, from time to time, change the minimum rating of a security assigned in this clause:

- (e) where investment is made in listed equity collective investment schemes, it shall be made only in the units of the scheme which have exhibited average total return on investment, not less than prevailing risk free rate defined as the rate on which 6 months T-Bill are issued +50 basis point at the time of investment;
- (f) the aggregate investment in listed equity securities of a particular company shall be restricted to ten per cent of the size of the fund or trust, as the case may be, or five per cent of the paid up capital of the investee company whichever is lower;
- (g) the aggregate investment in bonds, redeemable capital, debts securities or instruments issued by a particular statutory body or in listed debt securities of a particular company shall be restricted to ten per cent of the size of the fund or Trust, as the case may be, or five per cent of that issue, whichever is lower;
- (h) the aggregate investment in listed equity securities of constituting company or its associated companies out of fund or Trust, as the case may be, shall not exceed five per cent of the size of the fund or Trust, as the case may be;
- (i) the aggregate investment in bonds, redeemable capital, debt securities or instruments issued by a constituting statutory body or listed debt securities of constituting company or its associated companies out of fund or Trust, as the case may be, shall not exceed five per cent of the fund or trust, as the case may be;
- (j) the aggregate investment in money market listed collective

- investment schemes managed by a single asset management company shall be restricted to twenty per cent of the size of the fund or Trust, as the case may be;
- (k) the aggregate investment in any single listed equity collective investment scheme shall not exceed ten per cent of the size of the fund or trust, as the case may be;
  - (l) the aggregate investment in initial public offers (IPO) of equity securities shall be restricted to five per cent of the size of the fund or Trust, as the case may be, every six months in a calendar year subject to the following conditions, namely:-
    - (i) the aggregate investment in one IPO of equity securities shall be restricted to one per cent of paid-up capital of the investee company or two per cent of the size of the fund or Trust, whichever is lower;
    - (ii) investment in IPO of equity securities out of the fund or Trust, shall be made in companies having profitable operational record of at least three years; and
    - (iii) fund or Trust, shall not subscribe to an IPO of equity securities underwritten in any way by its associated companies or associated undertakings;
  - (m) investment shall not be made in a listed security if issuer of the security has defaulted any of its financial obligations and in listed security of such company which is on the defaulter segment of Pakistan Stock Exchange;
  - (n) investment in collective investment schemes that are hybrid in nature shall follow the investment limits provided in clause (b) of regulation 3 and the hybrid funds shall comply with the condition for investments provide in clause (c) and (e) of regulation 4;
  - (o) the fund or Trust, as the case may be, shall develop and maintain appropriate investment policies explaining investment limit, investment avenues and risk appetite including but not limited to business allocation among the brokers. Moreover, the fund or Trust, as the case may be, shall invest in liquid securities and shall refrain from activities including day trading, investment in future markets (except spread transactions) and investment in securities either through borrowing or through leverage.

**5. Mandatory submission regarding investments out of fund or Trust.-**

Every company, constituting a fund or Trust, as the case may be, shall, within one month of the close of every six months of the financial year of such fund or Trust, as the case may, submit to the Commission financial information of the fund or Trust as the case may be, as contained in the Annexure "A" to these regulations duly endorsed by the Chief Executive Officer of the company, in case of fund and by the head of trustees in case of Trust.

**6. Repeal and saving.-** (1). The Employees' Provident Fund (Investment in Listed Securities) Rules, 1996, Employees' Provident Fund (Investment in Listed Securities) Rules, 2016, Notification No. S.R.O. 261(I)/2002 dated the 10<sup>th</sup> May, 2002 and Notification No. S.R.O. 537(I)/2004 are hereby repealed.

(2) Save as otherwise specifically provided in these regulations, nothing in these regulations shall affect or be deemed to affect anything done, action taken, investigation or proceedings commenced, order made unless withdrawn, conveyance, mortgage deed, document or agreement made, fee directed or paid or accrued, resolution passed, direction given, proceedings taken or instrument executed or issued, under or pursuant to these regulations and any such things, action, investigation, proceedings, order, appointment, conveyance, mortgage deed, document, agreement, fee, resolution, direction, proceedings or instrument shall if in force at the coming into force of these regulations and not inconsistent with any of the provisions of these regulations continue to be in force and have effect as if it were respectively done, taken, commenced, made, directed, passed, given, executed or issued under these regulations.

-.-.-

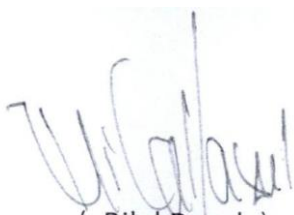
**ANNEXURE-A***[See rule 5]***Mandatory disclosures regarding Investments out of Fund or Trust:**

Particulars	Audited/Un-audited 2017 Rs.	Audited 2016 Rs.
Size of fund or trust-Total Assets		
Cost of Investments out of Fund or Trust		
Fair Value of Investments out of fund or Trust		
Percentage of Investments out of fund or trust		

**Break-up of Fair Value of Investments out of Fund or Trust:**

Particulars	Year 2017		Year 2016	
	Rs.	% of investment	Rs.	% of investment
Investment in Listed Debt Securities				
Investment in Listed Equity Securities				
Investment in Listed Debt Collective Investment Schemes				
Investment in Listed Equity Collective Investment Schemes				
Investment in Government Securities				
Bank Balances				
Others				

No. SY/SECP/8/13

  
( Bilal Rasul )  
Secretary to the Commission