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For immediate release

SECP introduces guidelines for CPPI-based mutual funds to ensure consistent practices

ISLAMABAD, May 19: The Securities and Exchange Commission of Pakistan (SECP) has issued requirements for management of internationally renowned Constant Proportion Portfolio Insurance (CPPI) methodology based mutual funds to ensure sustainable growth of CPPI strategy based funds.

The CPPI methodology based funds have been launched by asset management companies (AMCs) in recent years. The requirements introduced through the SECP's Circular No. 18 of 2015 seek to ensure investor protection, improved risk management, enhanced disclosures and thereby promote healthy development of the country's mutual funds industry.

These funds aim to preserve capital at maturity of the fund while providing exposure to equity market or other assets, based on CPPI methodology, which is formula-based investment criteria. While there is standard formula for making investments, there are some variables, which were determined by the AMCs at their discretion.

The specific measures are imposition of limits on the exposure that a fund may take in risky assets such as equity which results in risk mitigation; minimum time and magnitude for rebalancing of investment portfolio resulting in consistent approach across the industry; enhanced disclosures to improve transparency and investor protection; equitable treatment of investors of both CPPI funds and underlying funds in case exposure by CPPI based fund of funds is achieved through other funds and formulation of liquidity management policy by the AMCs board of directors for timely entry and exit.

The circular is available on SECP's website at http://www.secp.gov.pk/circulars.asp

Media and Corporate Communications Department
Securities and Exchange Commission of Pakistan
NIC Building, 63 Jinnah Avenue, Blue Area, Islamabad – 44000 Pakistan
Direct # 051-9100432, Fax # 051-9204915, Cell: +92 300-9882237
Email: sajid.gondal@secp.gov.pk
www.secp.gov.pk