

SECP makes regulatory framework conducive to mutual funds growth

ISLAMABAD, September 6: The Securities and Exchange Commission of Pakistan (SECP) has notified amendments to the NBFC and Notified Entities Regulations, 2008. The SECP held detailed consultative sessions, especially with the Mutual Funds Association of Pakistan (MUFAP) and trustees of the mutual funds as key stakeholders.

As part of its continuous efforts for development of the capital markets, and mutual funds in particular, the amendments are aimed at strengthening the existing regulatory framework as well as extend operational flexibility to fund managers. It is an important step forward for a more conducive regulatory framework to fuel growth of the mutual funds industry.

The significant amendments encompass:

1. Replacement of seed capital requirements with minimum fund size of Rs100 million to offer flexibility in launching new mutual funds;
2. Enhancement of unit-holders rights in case of any material change impacting fund's category and investment objective or other key aspects such as management fee or back-end load, etc.;
3. Suspension of redemption of units restricted to a maximum of 15 working days coupled with empowerment of unit holders to decide future of the fund including change of fund manager;
4. Introduction of a detailed procedure for winding up of an open-end fund;
5. Registration of trustees of open-end mutual funds by the SECP and enhancement of their role to better safeguard unit holder interests;
6. Registration of distributors of mutual funds with the MUFAP and existing distributors offered flexible time period (until Feb 2012) to comply;
7. Exemption granted to index fund, fund of funds and capital protected fund from group company investment limits. In addition, exemption provided to fund of funds from per party investment limit and passive funds have also been excluded from the per fund manager limit of 3 funds;
8. Reduction in limit of annual equity brokerage commission (payable by a mutual fund to a single broker) from 30% to 15% to promote competition in brokerage services; and
9. Restriction on mutual funds to subscribe to an issue underwritten, co-underwritten/sub-underwritten by group companies of its Asset Management Company.

In addition, the SECP has removed the minimum period for any lease to provide operational flexibility to leasing companies.

The amendments are in line with the best international practices and are expected to strengthen the existing regulatory framework in the larger interest of the mutual funds industry and for better investor protection.

The final notification, S.R.O. 814(I)/2011 is available on the SECP website.