SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
SPECIALISED COMPANIES DIVISION
POLICY, REGULATION AND DEVELOPMENT DEPARTMENT

No. NBFCD/CIRCULAR/ 308 /2012 **October 18, 2012**

Circular No.32 of 2012

Categorization of Open-End Collective Investment Schemes

In continuation of Circular 7 of 2009 dated March 6, 2009 wherein categorization of open-end collective investment schemes has been prescribed, the Securities and Exchange Commission of Pakistan (the "Commission") in exercise of its power conferred under Section 282B (3) of the Companies Ordinance 1984 read with Regulation 55(2) and 58(2) of the NBFC and Notified Entities Regulations, 2008 (the "Regulations"), is pleased to allow a new class of collective investment scheme to be categorized as a "commodity scheme" subject to the following minimum requirements:

A. INVESTMENT PARAMETERS:

1. At least 70% of the net assets of the commodity scheme shall remain invested in commodities or commodity futures contracts during the year based on quarterly average investment calculated on daily basis.
2. Remaining net assets of the commodity scheme shall be invested in cash and near cash instruments which include cash in bank accounts (excluding TDR), and treasury bills not exceeding 90 days maturity. However, at least 10% of the net assets of the commodity scheme shall remain invested in cash and near cash instruments at all times.
3. For the purpose of exposure in commodity or commodity futures contracts, a commodity scheme shall only be eligible to invest in exchange-traded futures contracts that have underlying assets as commodities (such as gold, silver, crude oil, etc.).
4. A commodity scheme shall only invest in cash settled futures contracts, except for gold for which a commodity scheme, in addition to the cash settled futures, may also invest in deliverable futures contract.
5. Maximum exposure of the scheme shall not at any time exceed 90% of its net assets to ensure no gearing / leverage by the scheme. For this purpose, the difference between the contract price and upfront margin i.e. the "earmarked cash" shall be

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blocked in an earmarked account for settlement purposes and the AMC along with the Trustee of the commodity scheme shall ensure timely payment of settlement amount and margin calls on behalf of the commodity scheme within the time period stipulated by the exchange.

6. For the purpose of the earmarked cash / assets, an AMC may invest the amount in the following manner:

    I. In cash and near cash instruments which include cash in bank accounts (excluding TDR), treasury bills and money market schemes.

    II. Rating of any bank with which funds are placed shall not be lower than AA (Double A).

    III. Time to maturity of any instrument / asset shall not exceed 90 days. Further, maturity of each investment / asset shall not exceed the maturity of the commodity futures contract for which the cash / assets has been earmarked.

7. AMC shall not sell commodity futures contract on behalf of the scheme without pre-existing interest of the commodity scheme.

B. Miscellaneous Requirements

8. AMC shall ensure that before launch of any commodity scheme, it possesses sufficient systems and employs capable human resources, which includes qualified fund managers with requisite skill set to understand and deal in commodities or commodity futures contracts.

9. AMC shall follow forward pricing mechanism for the commodity scheme and shall mark to market on a daily basis the exposure of the commodity scheme in commodities or commodity futures contracts.

10. AMC shall specify in the offering document of the commodity scheme reasonable cut-off time for calculation and announcement of NAV and for accepting application for issuance and redemption of units of the scheme, after appropriately taking into account the closing time of the exchange(s) on which such commodity futures contracts are traded.

11. AMC shall ensure that for any overseas investment by a commodity scheme the exchange rate declared by the State Bank of Pakistan is used for the purpose of marking the investments / assets to market.

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12. AMC shall not enter on behalf of a commodity scheme (or Shariah compliant commodity scheme), into transactions with any broker that exceed twenty percent of the commission payable by the scheme in any one accounting year.

13. Any incidental charges incurred in respect of the commodities may be charged to the commodity scheme with the approval of the Commission.

14. An Islamic commodity scheme shall invest only in Shariah compliant assets.

15. The commodity scheme shall be liable to pay to the Commission a monitoring fee of 0.075% per annum of its assets in line with the fees prescribed in the Regulations for money market schemes.

AMC shall ensure that in addition to the requirements stipulated under the NBFC Rules, 2003 and the Regulations, the requirements specified above are complied with in letter and spirit for any commodity scheme launched by it.

In case of any clarification with respect to this circular, AMCs, trustee of a scheme or MUFAP shall approach the Commission.

This Circular shall come into force with immediate effect.

Muhammad Ali
Commissioner (SCD)

Distribution:

i. Chief Executive Officers, all Asset Management Companies
ii. Mutual Funds Association of Pakistan
iii. Trustees of Mutual Funds