



KPMG Taseer Hadi & Co.
Chartered Accountants

A brief on the Employees Contributory Funds (Investment in Listed Securities) Regulations, 2018



A vertical photograph on the left side of the page shows a hand in a dark suit sleeve reaching up to a shelf filled with books. The books have dark covers with gold lettering. The hand is holding a blue folder or book. The background is a blurred view of more bookshelves.

A brief on the Employees Contributory Funds (Investment in Listed Securities) Regulations, 2018

The investment in listed securities were covered previously by Employees' Provident Fund (Investment in Listed Securities) Rules, 2016, S.R.O. 261(I)/2002 dated 10 May 2002 and S.R.O 537(I)/2004.

The Securities and Exchange Commission of Pakistan (SECP) vide S.R.O 731(I)/2018 dated 6 June 2018 has prescribed "Employees Contributory Funds (Investment in Listed Securities) Regulations, 2018, herein after referred as ("the regulations"), which has repealed the above mentioned rules.

The major changes brought through these regulations include:

- Revision of threshold of investments;
- Engagement of investment advisor holding a valid license from the SECP, in case investment in listed equity securities other than equity collective investment scheme exceeds Rs. 50 million; and
- Reporting requirements of the contributory fund.

The contributory funds have been required to bring the investments within the prescribed limits in one year.

We have summarized the changes made through these regulations in this brief for the benefit of our clients. We however, recommend that while considering application to a particular case, reference should be made to the specific wordings of the regulations.

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Synopsis of the Regulations

Applicability and Compliance

Regulation 1

Applicability

These regulations shall apply to all provident funds or other contributory retirement funds, managed either by company directly or through a trust, in respect of all the investments made by company or trust in:

- bonds, redeemable capital, debt securities or instruments issued by a statutory body;
- units of collective investment schemes; and
- listed securities including shares of companies, bonds, redeemable capital and debt securities.

Non-applicability

These regulations shall not to apply to a pension fund governed under Voluntary Pension Systems Rules, 2005.

Further, SECP has clarified that these regulations are not applicable on provident funds solely investing in securities issued by government.

Regularizations

All investments from the provident fund or any other contributory retirement fund, either managed by company or under a trust, which are beyond the investment limits provided in these regulations shall be reduced gradually and brought in conformity with the provisions of these regulations within one year from the date of commencement of these regulations (i.e. on or before 06 June 2019).

All provident funds or other contributory retirement funds intending to invest under these regulations, are required to amend their trust deed by inserting a clause providing one time option to the new employees for either allowing or not allowing the fund or the trust to make any investment out of their contributory fund or trust under these regulations.

Size of the Fund

Regulation 2

Size of the Fund or Trust means total assets of the contributory fund or trust including realized profit on such investments at cutoff date.

Limits and conditions for investments

Regulation 3 and 4

Regulation 3 stipulates limits on investments by the provident fund or trust in securities specified in Regulation 1. Regulation 4 prescribes criteria for these investments. These limits and conditions are summarized in Annexure A of this publication.

On overall basis such investments shall not exceed 50% of the size of the Fund or Trust. Certain general conditions related to investment advisor, default, qualification and investment policy stipulated by the regulation are also included in Annexure B of this publication.

Reporting to SECP

Regulation 5

Every company, constituting a Fund or Trust shall, within 1 month of the close of every 6 months of the financial year of such Fund or Trust, submit to the SECP financial information of the Fund or Trust, as the case may be, in the format prescribed in Annexure - C. This should be endorsed by the chief executive officer of the company, in case of Fund and by the head of trustees in case of Trust.

Other Matters

All words and expressions used but not defined shall have the same meanings as are assigned to them in the Companies Act, 2017, and NFBC Regulations, 2003 and 2008.

Annexure - A

Investment at a Glance – checklist (Regulation 3 to 4)

Where the company or Trust decide to make an investment out of the Fund or Trust in:

- (i) bonds redeemable capital, debt securities or instruments issued by a statutory body or;
- (ii) securities listed on PSX, including shares of companies, bonds, redeemable capital, debt securities, equity securities and collective investment schemes registered as notified entity under NBFC Regulations, 2008,

Such investments (explained in (i) and (ii) above) shall not exceed 50% of the size of Fund or Trust, subject to following sub limits:

Category of Investment	Limits	Conditions
Investment in listed equity securities, Equity CIS and Hybrid CIS	<ul style="list-style-type: none"> (i) Company Investment in a particular company shall not exceed 3% of the size of the Fund or Trust (10% of 30% of size of the Fund or Trust) or 5% of the outstanding shares in the paid up capital of the investee company, whichever is lower. (ii) Group Investment in constituting company or its associated companies out of Fund or Trust, shall not exceed 3% of the size of the Fund or Trust (10% of 30% of size of the Fund or Trust). (iii) Sector Investment in a particular sector, as per the sector classification made by the PSX, shall not exceed 6% of the size of the Fund or Trust (20% of 30% of size of the Fund or Trust). (iv) Single Equity CIS Investment in any single equity CIS shall not exceed 3% of the size of the Fund or Trust (10% of 30% of size of the Fund or Trust). (v) Overall Investment shall not exceed 30% of the size of the Fund or Trust. 	<ul style="list-style-type: none"> (i) Investment shall be made only where such company: <ul style="list-style-type: none"> a. has a minimum profitable operational record of immediate 3 preceding years; b. has paid average dividend of not less than 15% to the shareholders during 2 out of 3 preceding consecutive years; c. the minimum free float of the Company shall not be less than 15% or 50 million shares whichever is higher; and d. has breakup value equivalent or more than the par value of the shares of such company. (ii) where the aggregate investment in listed equity securities, other than equity CIS is Rs. 50 million or above, the Fund or Trust shall appoint or seek advice from investment advisor holding a valid license from the Commission for providing investment advisory services. Provided that where investment is made on advice of the investment advisor the investment criteria provided in the abovementioned conditions a, b and c shall not apply. Further, investment advisor will be held liable under applicable law in case of loss to Fund or Trust due to his negligence.
Investment in bonds, redeemable capital, debt securities or instruments issued by a statutory body	<ul style="list-style-type: none"> (i) Company Investment in a particular company shall not exceed 3% of the size of the Fund or Trust (10% of 30% of size of the Fund or Trust) or 5% of the outstanding shares in the paid up capital of the investee company, whichever is lower. 	<ul style="list-style-type: none"> (i) Shall be assigned a minimum rating of "A" by a credit rating company licensed with the Commission and with at least a stable outlook at the time of investment; and (ii) Investment shall not be made in a listed debt securities if issuer of the securities has defaulted in any of its financial obligations.

Category of Investment	Limits	Conditions
or listed debt securities of a company and Hybrid CIS	<p>(ii) Group Investment in constituting company or its associated companies out of Fund or Trust, shall not exceed 3% of the size of the Fund or Trust (10% of 30% of size of the Fund or Trust).</p> <p>(iii) Sector Investment in a particular sector, as per the sector classification made by the PSX, shall not exceed 6% of the size of the Fund or Trust (20% of 30% of size of the Fund or Trust).</p> <p>(iv) Overall Investment shall not exceed 30% of the size of the Fund or Trust.</p>	
Debt CIS	<p>(i) Investment in CIS managed by a single asset management company shall not exceed 10% of the size of the Fund or Trust (20% of 50% of size of the Fund or Trust).</p> <p>(ii) Investment shall not exceed 50% of the size of the Fund or Trust.</p>	Investment shall be made only in those schemes which have been assigned stability rating of A by a credit rating company licensed with the Commission at the time of investment.
Money market CIS	<p>(i) Investment in CIS managed by a single asset management company shall not exceed 10% of the size of the Fund or Trust (20% of 50% of size of the Fund or Trust).</p> <p>(ii) Investment shall not exceed 50% of the size of the Fund or Trust.</p>	Investment shall be made only in those schemes which have been assigned a minimum stability rating of "AA-" by a credit rating company licensed with the Commission at the time of investment.
Initial Public Offering (IPO)	<p>(i) Single IPO Total investment, at the time of making investment in one IPO of equity securities shall be restricted to 1 per cent of the paid-up capital of the investee company or 0.6% of the size of Fund or Trust, (2% of 30% of size of the Fund or Trust), whichever is lower.</p> <p>(ii) Overall Investment shall not exceed 1.5% of the size of the Fund or Trust (5% of 30% of size of the Fund or Trust), every six months in a calendar year.</p>	<p>(i) Investment in IPO of equity securities shall be made in companies having profitable operational record;</p> <p>(ii) Fund or Trust, shall not subscribe to an IPO of equity securities underwritten in any way by its associated companies or associated undertakings; and</p> <p>(iii) Fund or Trust, shall not subscribe to an IPO of a greenfield project.</p>
Overall Investment Limit	<p>Where the company or Trust decide to make an investment out of the Fund or Trust in:</p> <p>(i) bonds redeemable capital, debt securities or instruments issued by a statutory body or;</p> <p>(ii) securities listed on PSX, including shares of companies, bonds, redeemable capital, debt securities, equity securities and collective investment schemes registered as notified entity under NBFC Regulations, 2008,</p> <p>Such investments (explained in (i) and (ii) above) shall not exceed 50% of the size of Fund or Trust.</p>	

Annexure - B

General Conditions (Regulation 4):

Investment Advisor	<p>Where the aggregate investment in listed equity securities, other than equity CIS is 50 million rupees or above, the Fund or Trust shall appoint or seek advice from investment advisor holding a valid license from the Commission for providing investment advisory services. Where investment is made on the advice of the investment advisor the conditions for investment criteria provided in sub-clauses (I), (II) and (III) of clause (a) of regulation 4 of the regulation, shall not be applicable. These are reproduced below:</p> <p>(I) <i>has a minimum profitable operational record of immediate 3 preceding years;</i></p> <p>(II) <i>has paid average dividend of not less than 15% to the shareholders during 2 out of 3 preceding consecutive years; and</i></p> <p>(III) <i>the minimum free float of the Company shall not be less than 15% or 50 million shares whichever is higher.</i></p> <p><i>The investment advisor will however be held liable under applicable law in case of loss to Fund or Trust due to his negligence.</i></p>
Default	<p>Investment shall not be made in a listed debt securities if issuer of the securities has defaulted in any of its financial obligations.</p>
Qualification	<p>The Fund or Trust shall be managed by the qualified individuals having requisite skills, knowledge and experience in the capital market in order to ensure that, the investment and the interest of the employees' is protected.</p>
Investment Policy and limits	<p>The Fund or Trust shall develop and maintain appropriate investment policies explaining investment limit, investment avenues and risk appetite including but not limited to business allocation among the securities brokers and 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.</p>

Annexure - C

Summarized Investment Limits

	Company	Group	Sector	Overall
	Percentage of the Fund or Trust			
Investment in Equity Securities	3 or 5*	3	6	30
Equity CIS and Hybrid CIS**	3	-	-	
Investment in bonds, redeemable capital, debt securities or instruments issued by a statutory body or listed debt securities of a company and Hybrid CIS**	3 or 5*	3	6	30
Debt CIS	10	-	-	50
Money market CIS	10	-	-	50
IPO	0.6 or 1*	-	-	1.5
Overall Investments limits under these regulations	-	-	-	50

* of issue / paid-up capital whichever is lower

** overall limit is applicable

Mandatory disclosures regarding Investment out of Fund or Trust

Particulars	Audited /	Audited
	Un-audited	
	CY	PY
	Rs.	Rs.
Size of fund or trust- Total Assets	xxx	xxx
Cost of investment out of fund or trust	xxx	xxx
Fair value of investment out of fund or trust	xxx	xxx
Percentage of investment out of fund or trust	xxx	xxx

Break-up of Cost of Investment out of Fund or Trust

Particulars	CY		PY	
	Rs.	% of Investment	Rs.	% of Investment
Investment in Money Market CIS	xxx	xx	xxx	xx
Investment in Equity CIS	xxx	xx	xxx	xx
Investment in Debt CIS	xxx	xx	xxx	xx
Investment in Other CIS	xxx	xx	xxx	xx
Investment in Listed Debt Securities	xxx	xx	xxx	xx
Investment in Listed Equity Securities	xxx	xx	xxx	xx
Investment in Debt Instruments of Statutory Bodies	xxx	xx	xxx	xx
Investment in Government Securities	xxx	xx	xxx	xx
Bank Balances	xxx	xx	xxx	xx
Others	xxx	xx	xxx	xx



Offices in Pakistan

Karachi Office

Sheikh Sultan Trust Building No. 2
Beaumont Road
Karachi 75300

Phone +92 (21) 3568 5847
Fax +92 (21) 3568 5095
email karachi@kpmg.com

Lahore Office

2nd Floor, Servis House
2-Main Gulberg, Jail Road
Lahore 54000

Phone +92 (42) 3579 0901-6
Fax +92 (42) 3579 0907
email lahore@kpmg.com

Islamabad Office

Sixth Floor, State Life Building
Blue Area
Islamabad

Phone +92 (51) 282 3558
Fax +92 (51) 282 2671
email islamabad@kpmg.com

www.kpmg.com.pk

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