NEWSLETTER JANUARY 2016

Institute of Capital Markets

Message from the CEO

The last few years have seen a progressive change in size, quality and sophistication of capital markets. The rapid growth has taken place because of modifications in policy and regulatory environment, the entrepreneurial initiatives of individuals and institutions, and availability of trained manpower. The continual growth of capital markets demands for qualified and well-trained professionals.

Institute of Capital Markets (ICM) is Pakistan's first specialized institution dedicated to the professional development, research and well-being of capital markets by educating the professionals about the norms and ethics being practiced. The institute's main activities are (1) Licensing the professionals working in the capital markets by certifications in order to educate and examine knowledge of professionals working in relevant fields; (2) studying the latest developments in the capital markets in order to discover whether there is such a thing as an ideal market economy; and (3) contributing to the development of capital markets in Pakistan. By means of these three activities, ICM seeks to communicate its ideas to the audience at both, home and overseas.

ICM plays a pioneering role in meeting the demand of the educated manpower required for specialized capital markets. It is devoted to educate and update knowledge of capital markets participants such as investors, brokers, mutual funders, investment bankers and policy makers by following high-quality educational standards.

The institute's research is intended, first and foremost, to be neutral, professional and practical. Rooted in practice, research aims to contribute to the healthy development of Pakistan's capital markets as well as to related policies by conducting professional studies of how these markets and the financial system are regulated, organized and how they perform.

The Institute hopes that, by responding positively to the rapid changes in economy, it can contribute to the dynamic development of the country's capital markets as well as of the economy itself.

SUBSIDIZED FEE STRUCTURE

- Candidate Registration: Rs.5,000/-
- Examination Registration: Rs.5,000/-
- Annual Membership: Rs.5,000/-
- Grandfathering

Rs.30,000/- (For 3 certifications)

Rs.20,000/- (For 1 or 2 certifications)

[Available till 30th June, 2016]

INSIDE

INSTITUTE OF CAPITAL MARKETS

TYPES OF MUTUAL FUNDS- A CLOSER LOOK

Mutual funds are investment vehicles that pool money from many different investors for the purpose of investing in securities such as stocks, bonds and money market instruments. These are managed by professional fund managers who have the necessary technical expertise and knowledge. Broadly, mutual funds can be classified based on their structure, investment strategy and management style. A person can choose an appropriate mutual fund that suits his/her investment requirement.

STRUCTURE

Mutual funds are classified as per the structure of the fund. There are three different types of mutual funds based on the maturity period:

Open-ended fund

These funds are open ended in structure. Open-ended funds are available for subscription on a continuous basis and can be redeemed anytime.

Close-ended fund

A close-ended mutual fund has a defined maturity period, e.g., 3-6 years. These funds are open for subscription for a specified period at the time of launch. The funds are traded either on a discount or premium to the NAV.

Interval funds

Interval funds combine the features of open-ended and close-ended mutual funds. These funds may trade on stock exchanges and are open for sale or redemption at predetermined intervals.

INVESTMENT STRATEGY

Mutual funds are also classified on the basis of the target set for the given scheme. There are various types of mutual funds that are based on the investment strategy:

Equity funds

Equity funds invest a major part of their corpus in stocks and the investment objective of these funds is long-term capital growth. These funds may invest in a wide range of industries. These mutual funds are suitable for investors with a long-term outlook.

Debt and money market funds

Debt mutual funds generally invest in securities such as bonds, corporate debentures, government securities and money market instruments. These mutual funds are likely to be less volatile than equity funds and produce regular income.

Balanced funds/Asset allocation funds

Balanced mutual funds invest in both equities and fixed income instruments in line with the pre-determined investment strategy of the scheme. These mutual funds may be ideal for investors looking for a combination of income and moderate growth.

Equity linked savings scheme (ELSS)

Tax-saving schemes offer tax rebates to investors under specific provisions. These are growth-oriented schemes and invest primarily in equities.

Thematic funds

Thematic funds are equity schemes which invest in a set of sectors that are closely related to a particular theme like infrastructure. Unlike sector funds, thematic funds have a broader spectrum to operate in.

MANAGEMENT STYLE

Mutual funds are also classified based on how the fund manager manages the fund:

Active Funds

If the fund is managed constantly using various investment strategies, it is an active fund. These funds are actively managed by the fund manager. The manager uses market timing and stock selection techniques to manage the portfolio.

Passive Funds

These funds are passively managed by the fund manager. A passive fund involves less dynamic portfolio management strategies and mainly tries to replicate the performance of a benchmark index. The manager doesn't manage the portfolio on a continuous basis as in the case of active funds. These funds are usually in the form of index funds, exchange-traded funds, where the fund manager has to manage the fund portfolio in terms of its composition so that it can replicate the index.

PAKISTAN STOCK EXCHANGE LIMITED (PSX)

The stock exchanges of Karachi, Lahore and Islamabad formally merged and inducted into the unified stock exchange-The Pakistan Stock Exchange (PSX). Finance Minister, Senator Ishaq Dar inaugurated the Pakistan Stock Exchange (PSX) in a ceremony held in Islamabad on 11th January, 2016. A memorandum of understanding was signed on August 27, 2015 for the establishment of the Pakistan Stock Exchange. This move was made to see brokers and investors coming together on one platform and was aimed at increasing efficiency and transparency of the trading process. With three separate stock exchanges, it was hard to find an interested private investor for the Islamabad and Lahore exchanges due to their tiny size as the private investors wanted to acquire ownership of Karachi Stock Exchange which was the dominant one while the other two remained in government hands so the integration of the three exchanges is an essential step to usher in an era of privately owned and operated stock markets so that the necessary investment in upgrading the infrastructure of the exchanges could be mobilized and superior oversight could restrain the power of the large brokers to manipulate the market and engage in unethical trading practices. Formation of Pakistan Stock Exchange was also a part of the vision of the present government so it is anticipated that it will play a major role towards achieving the desired economic growth agenda of the government. The government has extended support to the capital market through enactment of crucial legislation such as the Securities Act, 2015. The Securities Act, 2015 and other such type of laws would have significant impact by improving regulatory enforcement, compliance and facilitation. The merger also aims to complete the demutualization process meant to attract strategic investors who would bring in fresh investment as well as the latest technology and products. The government, in line with its consultative and participatory approach, is willing to accept the proposals from the business community with regards to tax rationalization and incentives for encouraging new listings and promoting the capital markets. This unified stock exchange is expected to play a major role in the development of an economy which would help to reduce market fragmentation and create a strong case for attracting strategic partnerships necessary for providing technological expertise and assistance.

INVESTORS' TERMS OF THE MONTH

Working Capital Limit

The aggregate fund-based limits including those by way of purchase/discount of bills sanctioned by one or more financial institutions to a company for meeting its working capital requirements, and also includes any working capital term finance limits.

Short Sale

A sale by a party that does not own shares or the sale does not constitute a sale with pre-existing interest but is a sale by a party that has entered into a contractual borrowing arrangement to meet delivery requirements.

Underwriter

A person who:

(a) On a firm commitment basis purchases newly issued securities or securities offered for sale for the purpose of public resale on behalf of the issuer or offeror or who guarantees to an issuer or offeror that the unsold residue of the issuer's public issue or sale will be taken up; or

(b) On a best efforts basis acts as an underwriter for the issuer.

Transfer Agent

A person appointed by the issuer to assist in the maintenance of record for issuance and transfer of securities and to perform functions of persons commonly known as Registrar.

Surveyor

A person (by whatever name called) who examines the goods, property or any interests insured under a contract of non-life insurance to express an independent opinion as to the cause, extent, location and amount of any loss incurred or claimed to be incurred under that contract.

Venture Project

A company, registered under the Companies Ordinance. 1984 (XLVII of 1984), or a partnership, or a sole proprietorships which is engaged in a business activity and has such characteristics as may be notified by the Commission, from time to time, to be treated as venture projects.

Scheme

The Employees Stock Option Scheme approved by the Commission and introduced under the rules.

SECP proposed Amendments in Rules

SECP proposed amendments to the Companies (General Provisions & Forms) Rules 1985 for minimizing the growing incidents of the corporate disputes between shareholders and management or within management. The amendments stipulate detailed procedure for transfer of shareholding in a private company. The shareholders of private companies will have pre-emptive rights to buy shares offered by any other shareholder. Moreover, in case of all private and public unlisted companies, the amendments prescribe the returns for notifying transfer of shares to the registrar within fifteen days from such transfer. The companies are bound to send out offers for new shares to the existing members at least fifteen days before the last date of the acceptance of offer. The payment of the shares shall only be made through normal banking channel. In case of removal of directors under section 181 of the Companies Ordinance, the amendments prescribe certain documents to be annexed with the prescribed 'form 29' to be filed with the registrar for notification of the removal. The notification has been uploaded at the official website of the SECP (www.secp.gov.pk) for seeking public opinion.

Regulatory requirements issued for AMCs, IBs, Leasing firms, Modarabas

SECP introduced standardized regulatory requirements for branches of asset management companies, investment banks, leasing companies, and modarabas to protect and facilitate investors. Pakistan Stock Exchange, National Clearing Company Ltd and Central Depository Company were being provided with drop boxes to facilitate investors in lodging complaints with SECP which will be collected by the representative of SECP in every three days. The regulatory requirements specify that these entities have to submit details to the SECP before opening and closing their branches. The public has to be informed prior to the closing of the branch through a notice visibly displayed at the respective branch, which should also be published in a local newspaper. These entities are also required to prominently display certificate of registration and valid license at their branches. The information of all products should also be made available at the branches through printed brochures for the awareness of investors. The deposit-taking NBFCs and Modarabas should ensure appropriate and visible display of a valid permission from the SECP to raise deposits at their branches along with their current credit rating.

SECP de-registered 11 Modaraba Management Companies

The Securities and Exchange Commission of Pakistan de-registered eleven Modaraba Management Companies (MMCs) because these companies were non-compliant with the conditions of registration certificates granted to them as well as with the Modaraba Companies and Modaraba (Floatation & Control Ordinance) 1980 and the Modaraba Rules, 1981. The SECP completed the due process of law and took the decision of de-registration after detailed scrutiny of each case. The companies were also provided with an opportunity of hearing. These eleven MMCs are not eligible to undertake the business of the Modaraba in any form by whatever name called. The general public is advised to only invest in the Modarabas which are managed by registered MMCs and listed on the stock exchange. A list of modarabas and registered modaraba companies has been placed on the official website of the SECP (www.secp.gov.pk) for the convenience of the public.

BUSINESS AND ECONOMIC NEWSFLASH

DOMESTIC NEWSFEED

Increase in Repatriation of Profits and Dividends

State Bank of Pakistan stated that repatriation of profits and dividends by foreign firms operating in Pakistan increased to $802 million during July – November in 2015 which was $640 million in the same period of 2014.

Non-performing loans of housing finance provided by banks, DFIs, and specialized institutions have gone down to Rs.14.12 billion during July – November 2015 against Rs.15.51 billion during the same period of 2014. Fresh instructions have been issued by SBP for banks and DFIs relative to their debt management portfolio to ensure lower levels of NPLs.

On January 01, 2016, the amount of total liquid foreign exchange reserves was $20.810 billion. $15.883 billion out of $20.810 was held by SBP and the rest was with the banks. A tax amnesty scheme has been unveiled by the government under which non-filers of tax returns can enter the tax net by paying a variable amount as proportionate to their unfiled income as a one-time penalty. The inflation measured by the consumer price index in December 2015 showed an increase of 3.2%. The weekly sensitive price indicator was also recorded higher by 0.22% on December 31, 2015. According to World Bank in its Ease of Doing Business, 2016, report, Pakistan's position has been downgraded to 138 from 136 out of 182 countries in 2015.

SBP's Survey for the First Quarter

According to the survey of the economy for the first quarter of the fiscal (July-September 2015), SBP concluded that in spite of the broad improvement in the economy at the macro-level, the GDP growth target of 5.5% for the current fiscal may cause challenges which would be mainly because of the lower agricultural sector growth target. Due to unpleasant weather and pest attack, cotton production has been hit in Punjab. Foreign direct investment (FDI) during the first half of the current fiscal (July – December 2015) rose to $624.1 million against $610.4 million during the same half last fiscal.

An outflow of $ 387.2 million in portfolio investment has been recorded against an outflow of $ 238.3 million during the above periods. The current account deficit narrowed to $1.267 billion during July – December 2015 against $ 2.463 billion in the same period of 2014. Monetary expansion (M2) during July – December 2015 was recorded at 4.23 % against averaged 2.73 % in the same period of 2014.

The time limit for purchase of approved foreign currencies has been extended by SBP by another three months. According to IMF, public debt – domestic plus external would come down to 55.2 % of GDP by 2021 against 64.9 % of GDP as of now.

Constitution of Monetary Policy Committee (MPC)

An independent Monetary Policy Committee (MPC) has been constituted by the government to formulate monetary policy. MPC comprised of nine members including three members of the board nominated by the board itself, three external members who shall be economist and appointed by the federal government on recommendation of the board and three senior executives of the bank.

In November 2015, the Parliament legislated amendments in the SBP Act, 1956 establishing an independent MPC. The independent MPC has been empowered to make monetary policy and its allied decisions.

BUSINESS AND ECONOMIC NEWSFLASH
INTERNATIONAL NEWSFEED

Devaluation of the Yuan

The central bank of China has set the value of the Yuan against the US dollar at its lowest since April 2011. Yuan has been devalued by 0.50% which has led to heavy losses in the value of stocks in markets around the globe particularly in Shanghai. It was its weakest for nearly five years. According to the forecast of IMF, global economic expansion in this year would be lower than 3.6% which was anticipated earlier. This decrease will be mainly because of the increase in rate following the U.S Federal Reserve rate rise and slowing Chinese economy. The Brazilian government has provided them with $9.91 billion debt so that the country would be able to maintain its monetary policy operations.

Sanctions Improved Against Iran by US

The improved sanctions against Iran have led to alliance among the countries. Iran plans to gain about $100 billion in short-term with the help of pre-sanction free trade opportunities and unblocking of frozen assets. The Iranian Riyal has also surged in value after the lifting of international sanctions against Tehran. International crude oil prices have been slid and the benchmark Brent crude traded at $30 a barrel, lowest for 12 years. The most important of these would be tax breaks.

Indonesia's central bank has cut its key lending rate by 25 basis points to 7.25 %, the first cut since February 2015. The key lending rate of Bank of Korea remains unchanged at 1.50 % which is the lowest record rate.

Iran and China signed 17 agreements

China and Iran signed 17 agreements worth $ 600 billion at the meeting of Rouhani and Xi in Tehran. During the meeting, bilateral cooperation agreements were signed in almost all areas with economic issues, infrastructure development and trade playing a predominant role. The highlight was the agreement to boost economic cooperation for China's "New Silk Road" of land and sea. Iran and Italy have also signed numerous deals worth 17 billion euros in order to make Iran a trading hub between Europe and the Middle-East. It is estimated that the Trans-Pacific Partnership (TPP), the new U.S, would increase the national income of the U.S by $ 131 billion within a period of one year before the contours become operational. EU has strongly criticized the bailout packages in some EU countries particularly in the euro zone as it was hampering the growth. World Bank has concluded that slower growth rate in emerging economies was restricting rise in oil prices which in turn was slowing global growth.

Markets in Review

Monthly Review	Crude Oil (WTI) ($)	KIBOR (6 Months) (%)	Foreign Exchange Rates			KSE	Gold
			GBP(£)	EURO(€)	USD($)	100 Index	10 Grams
Beginning	37.24	6.37	Rs.148	Rs.114	Rs.104	33,936	Rs.38,614
Ending	31.70	6.35	Rs.149	Rs.114	Rs.104	31,290	Rs.39,171
Change	-5.54	-0.02	+1	0.00	0.00	-2,646	+557