



INTRODUCTION TO THE INSTITUTE



TERMS OF THE MONTH



BUSINESS AND ECONOMIC NEWSFLASH



URDU GLOSSARY



QUOTES AND JOKES



MARKETS IN REVIEW

VOLUNTARY PENSION SCHEMES IN PAKISTAN



The name of the institute has been changed from Institute of Capital Markets (ICM) to **Institute of Financial Markets of Pakistan (IFMP)**.

IFMP's New Address and Telephone Number:

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The last few years have seen a rapid growth in size, quality and sophistication of financial markets, because of changes in the policy and regulatory environment, the entrepreneurial initiatives of individuals and institutions, and the availability of trained manpower. The continuing growth of financial markets is further adding to the demand for well-trained professionals.



Mr. Muhammad Ali Khan

Institute of Financial Markets of Pakistan is dedicated to the professional development of financial markets and research on financial markets as well as the well being of financial markets by educating the professionals about the norms and ethics being practiced in the markets. IFMP has had a pioneering role in meeting the demand for educated manpower. It is Pakistan's first specialized institution devoted to the education and updating of knowledge of manpower for financial markets. It will provide high-quality educational standards for all types of financial market participants; investors, brokers, mutual funds, investment banks and policy makers.

The Institute's main activities are (1) Licensing the professionals working in the financial markets by certifications. The institute's key responsibility is to educate the professionals working in different financial markets of Pakistan through examining their knowledge in their relevant field of work; (2) Studying the latest developments in the financial markets in order to discover whether there is such a thing as an ideal market economy; and (3) Contributing to the development of financial markets in Pakistan. By means of these three activities the Institute seeks to communicate its ideas to the audience both at home and overseas. The Institute's research is intended, first and foremost, to be neutral, professional and practical. Rooted in practice, it aims to contribute to the healthy development of Pakistani financial markets as well as to related policies by conducting neutral and professional studies of how these markets and the financial system are regulated and organized and how they perform.

The economy is changing all the time. The Institute hopes that, by responding to these changes positively, it can contribute to the dynamic development of the country's financial markets as well as of the economy itself.

The Institute of Financial Markets of Pakistan (IFMP) (Formerly Institute of Capital Markets), Pakistan's first securities market institute, has been established as a permanent platform to develop quality human capital, meet the emerging professional knowledge needs of financial markets and create standards among market professionals. The Institute has been envisioned to conduct various licensing examinations leading to certifications for different segments of the financial markets. IFMP develops a pool of trained and certified professionals, skilled not only to deal in conventional instruments but also to trade in new and complex financial market products.

-EXAMINATION SCHEDULE-

- Sun, 30 July, 2017
- Sun, 24 September, 2017
- Sun, 26 November, 2017



INSURANCE CERTIFICATIONS

- ⇒ General Takaful Training
- ⇒ Family Takaful Training
- ⇒ Life Insurance Agent
- ⇒ Non-Life Insurance Agent

LICENSING CERTIFICATIONS

- ⇒ Fundamentals of Capital Markets
- ⇒ Pakistan's Market Regulations
- ⇒ Stock Brokers Certification
- ⇒ Mutual Funds Distributors
- ⇒ Commodity Brokers Certification
- ⇒ Research Analysts Certification
- ⇒ Mutual Funds Basic Certification
- ⇒ Financial Advisors Certification

-FEE STRUCTURE-

Candidate Registration Fee	Rs.10,000
Examination Registration Fee	Rs.7,000
Membership Fee (Annual)	Rs.5,000
Study Guide (Hard Copy)	Rs.800

PROGRAMMES

OTHER CERTIFICATIONS

- ⇒ Financial Derivative Traders Certification
- ⇒ Compliance Officers Certification
- ⇒ Clearing and Settlement Operations Certification
- ⇒ Risk Management Certification
- ⇒ Capital Budgeting and Corporate Finance Certification
- ⇒ Investment Banking and Analysis Certification
- ⇒ Islamic Finance Certification
- ⇒ Fixed Income Certification

For more information, please visit our website: www.ifmp.org.pk

Introduction

This article aims to provide an overview of the Voluntary Pension Schemes (VPS) in Pakistan that became functional in 2007 under the “Voluntary Pension System (VPS) Rules-2005”. The article outlines various attributes of VPS that make them more attractive than traditional employer-sponsored retirement plans such as provident funds and gratuity, and provides a brief comparison between them. Furthermore, the article provides a brief insight into the VPS schemes offered by a variety of financial intermediaries in Pakistan and their benefits for retail investors but also for capital markets. An increasing demand of VPS schemes has been observed in recent years potentially due to their favorable characteristics such as tax credits, portability, diversification and asset allocation pertinent to investors' profile and preference.

Voluntary Pension Schemes (VPS) are retirement schemes in which investors invest in a collective pool of investment that is managed by a licensed Pension Fund Manager (PFM). Investors accumulate savings to have financial security in future, especially post-retirement and the VPS enables them to maintain a source of income after retirement, cover health and other expenses and allows them to be self-reliant.

In 2003, a committee was setup by the Securities and Exchange Commission of Pakistan (SECP) to form a voluntary pension system with tax credit. In 2005, the SECP issued “Voluntary Pension System Rules-2005” (Scheme, 2008), and subsequently licensed four private asset management firms in 2007 to offer and manage VPS. Under the VPS regulations, only asset management firms with minimum three-year experience and life insurance companies that submitted audit reports of at least past three years, were allowed to be pension fund managers.

Structure of Voluntary Pension Schemes and Key Players

Figure 1 below presents the structure of a VPS. The figure presents various investment strategies that a VPS can have depending on investor's profile and preference and payouts under various circumstances.

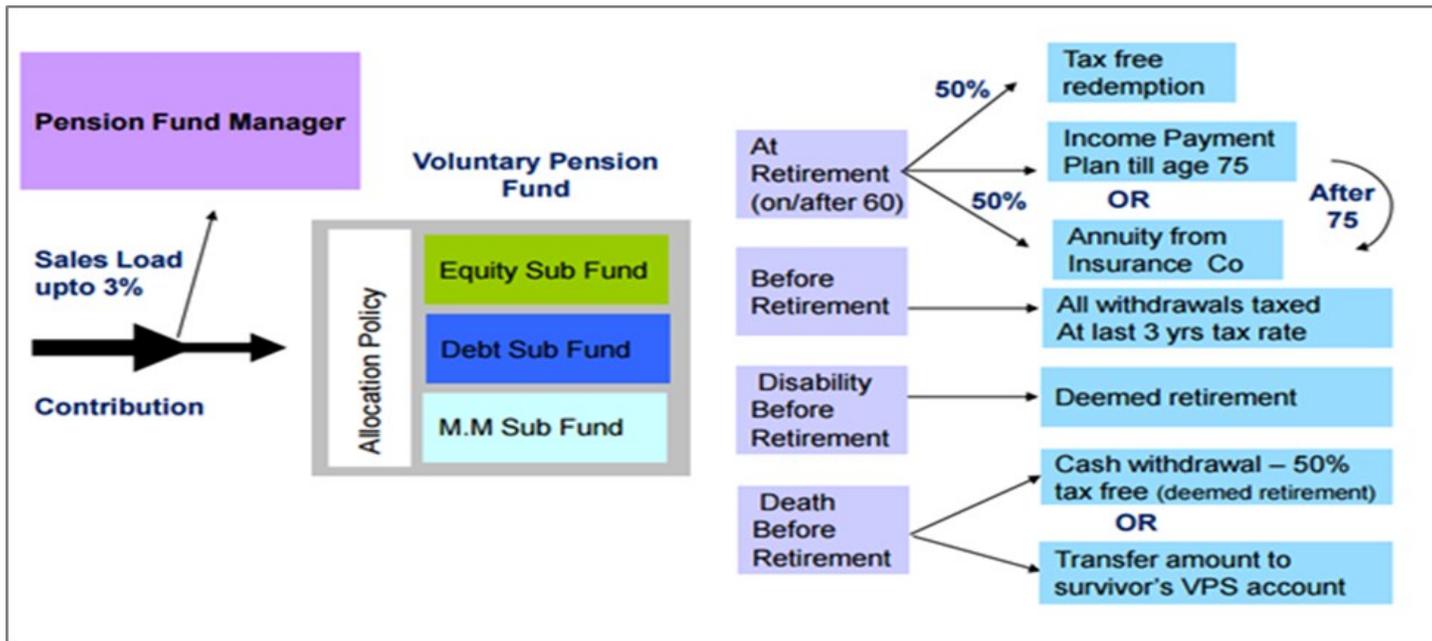
The SECP's initiative 'JamaPunji' website suggests that a VPS has the following key players:

Asset Management Company / Registered Pension Fund Manager: A licensed entity by the SECP, whose is responsible to compile, file and distribute the prospectus and other legal documents, according to the applicable regulations, and to ensure that all other regulatory reporting requirements are completely fulfilled.

Trustee: A financial institution or a company appointed with the approval of the SECP, which is responsible for collection of the contributions as required by the terms of the trust. The trustee is expected to agree to all applicable laws, rules, and regulations, including the terms of the scheme documents and enact strategies in the best interest of the beneficiaries. Besides collection of contributions, the trustee is also responsible to hold all investments, returns on investments and other incomes earned by the VPS on behalf of the participants.

Participant: Pakistani nationals, including non-resident Pakistanis, over the age of 18 years having National Tax number or holding a Computerized National Identity Card or National Identity Card for Non-Resident Pakistan (NICOP) are eligible to become participants to a pension fund.

Figure 1: Structure of Voluntary Pension Scheme



Source: MUFAP (2012)

Characteristics of Voluntary Pension Schemes

Customization and Asset Allocation: The VPS allows investors to customize their pension accounts according to their profile and preferences. Investors can choose a pension plan and select an age of retirement (60 to 70 years). Investor can collect a lump sum payment of 25% of the accumulated balance tax free at the time of retirement and the rest of 75% can be invested into the “Income Payment Plan (IPP)” that the pension provider manages. The IPP includes 3 sub funds; “equity, debt and money market” and pays a monthly income to the investors. The investors can allocate their invested amount in the sub funds according to their preference.

Portability and Mobility: The VPS allows investors to transfer their accounts from one fund manager to the other. Since these accounts are voluntarily maintained by the investors themselves, changing a change of employer and employment does not impact the VPS. Investors may also choose to maintain multiple VPS with different fund managers.

Fees: The SECP has a very strict requirement for pension fund managers with respect to the management fees, that cannot exceed 1.5% per annum. In addition to the management fee, a sales load is also charged by the fund manager.

Tax Benefit: The VPS allows maximum tax exemption of Rs. 500,000 per annum to its investors. VPS also allows investors to withdraw cash at any time before retirement by paying all the taxes.

Investment Strategies

The VPS may employ various investment strategies depending on the profile and preference of the investors. For example, young investors with extended years of anticipated employment may opt for high risk portfolios that may provide them an opportunity for growth in capital. On the other hand, stable income through dividends and interest on bonds, and liquidity provided by money market instruments is more pertinent to their needs. Table 1 provides an insight into multiple investment strategies that a VPS may offer.

Table 1: Investment Strategies

Investment Strategies	Risk/Return Profile	Sub Fund (Minimum Allocation)		
		Equity	Debt	Money Market
High Volatility	High	65%	20%	Nil
Medium Volatility	Moderate	35%	40%	5%
Low Volatility	Low	10%	60%	15%
Lower Volatility	Lower	Nil	40%	40%
Life Cycle Allocation	Automatically adjusts the allocation from High risk assets to Low risk assets based on investor's age.			

Source: MUFAP (2012)

The Equity Sub Funds are aimed to gain long term capital growth. They are primarily invested in equity securities with minimum of 90% of its assets equitable to shares. The Debt Sub Funds ensure that consistent income is generated along with the conservancy of the capital. They are invested largely in tradable debt securities with weighted of average maturity of maximum five years. Lastly, the Money Market Sub Funds invest in short-term money market securities with an average maturity period of 90 days.

Comparison of Voluntary Pension Schemes, Provident Funds and Gratuity

The table 2 below provides a brief comparison between VPS, provident funds and gratuity.

Table 2: Comparison between VPS, Provident Fund and Gratuity

Voluntary Pension Scheme	Provident Fund	Gratuity
Contribution by participant. Employer may or may not contribute.	Defined Contribution. Both employer and employee contribute.	Benefits defined in the contract by the employer which is based on the employee's salary and tenure.
Investment risk with the participant	Investment risk with the participant	Investment risk with employer
20% of annual gross income tax exempt	Tax exemption capped on 10% of employers' contribution up to PKR 100,000	
Insurance wrap	Not applicable	Not applicable
Portable	Not applicable	Not applicable
Choice of fund managers	Not applicable	Not applicable
Investment income accumulates tax free up to the retirement of the participant	Interest income exceeding one-third of the salary or a rate determined by the Federal government is taxed	
Shariah compliant investment option available	May or may not be available	May or may not be available
Statements available on line and upon request	Not available	Not available

Voluntary Pension Funds in Pakistan

According to SECP, as of September 2016, there are 17 pension funds, out of which nine are Shariah-compliant. These funds are managed by nine pension fund managers. The total net assets of the pension fund industry in September 2016 were more than over Rs 18 billion, contributed by more than 10,000 participants. In 2015, the total net assets of the pension fund industry were approximately Rs 13 billion by around 7,000 participants. Table 3 below provides an overview of selected VPS in Pakistan.

¹ Provident funds are investment funds in which employees contribute a portion of their salary and employers also contribute on behalf of the employees. The employee then receives a lump sum amount at the time of retirement.
² Gratuity is a lump sum amount that employer pays to its employees upon retirement, death or termination.

Table 3: Selected Voluntary Pension Funds in Pakistan

	NAFA Pension Funds	NAFA Islamic Pension Funds	Pakistan Pension Fund	Pakistan Islamic Pension Fund	HBL Pension Fund	HBL Islamic Pension Fund	Meezan Tahaffuz Pension Fund
Manager	NBP Fullerton Asset Management Limited	NBP Fullerton Asset Management Limited	MCB-Arif Habib Savings and Investments Limited	MCB-Arif Habib Savings and Investments Limited	HBL Asset Management	HBL Asset Management	Al Meezan Investment Management Limited
Trustee	Central Depository Company of Pakistan Ltd.	Central Depository Company of Pakistan Ltd.	Central Depository Company of Pakistan Ltd.	Central Depository Company of Pakistan Ltd.	Central Depository Company of Pakistan Ltd.	Central Depository Company of Pakistan Ltd.	Central Depository Company of Pakistan Ltd.
Launch Date	July 2, 2013	July 2, 2013	June 27, 2007	November 15, 2007	December 16, 2011	December 16, 2011	June 28, 2007
Size of the Fund	Rs. 1,972 million (as of May 31, 2017)	Rs. 1,526 million (as of May 31, 2017)	Rs. 1463.1 million (as of May 31, 2017)	Rs. 742.2 million (as of May 31, 2017)	Rs 590.3 million (as of May 31, 2017)	Rs. 320.9 million (as of May 31, 2017)	Rs. 9317 million (as of May 31, 2017)
Asset Manager Rating	AM1 by PACRA	AM1 by PACRA	AM2++ by PACRA (As of June 8, 2016)	AM2++ by PACRA (As of June 8, 2016)	AM2 by JCR-VIS (As of December 31, 2016)	AM2 by JCR-VIS (As of December 31, 2016)	AM1 by JCR-VIS
Minimum Investment	Rs.1,000 (Rs.10,000 at the time of account opening)	Rs.1,000 (Rs.10,000 at the time of account opening)	Rs. 500	Rs. 500	Rs. 500	Rs. 500	- Rs.1,000
Asset Allocation Schemes*	Equity, Debt and Money Market	Equity, Debt and Money Market	Equity, Debt and Money Market	Equity, Debt and Money Market	Equity, Debt and Money Market	Equity, Debt and Money Market	Equity, Debt and Money Market
Shariah Compliant	No	Yes	No	Yes		No	Yes
Sales Load (Front/Back End)	Maximum 3%	Maximum 3%	Maximum 3%	Maximum 3%	Maximum 3%	Maximum 3%	Maximum 3%
Management Fees	1.50% per annum	1.50% per annum	1.50% per annum	1.50% per annum	1.50% per annum	1.50% per annum	1.50% per annum
Tax Credit	The participants are entitled to tax credit (20% of taxable income and up to 50% of previous year taxable income) on their contribution.						
Tax on Growth in Investment	Tax free growth in investment: The contributions made by the participants and/ or their employers (if any), plus the investment income, are accumulated tax free in the Sub-Funds until the participant retires.						

Source: Al Meezan Group (2017); HBL Asset Management (2017), MCB-Arif Habib Savings and Investments Limited (2017); NBP Fullerton Asset Management Limited (2017)

Benefits of Voluntary Pension Schemes for Capital Markets in Pakistan

The VPS' are a great way for individuals to invest and save for retirement especially for those who do not get pension benefits for their employers or are self-employed. It enables investors to allocate resources efficiently and diversify portfolios according to their preference.

The VPS allow corporations and government to advantage from the inflow of funds into the market. Besides being beneficial to investors, VPS can contribute to stabilize and develop Pakistan's capital markets. It may help listed companies to raise equity and debt capital, hence contributing to the overall growth of capital market. The government may also raise funds for public sector expenses, such as infrastructure, schools and hospitals and also finance the fiscal deficit. In addition, VPS may also encourage non-resident Pakistanis to have VPS in Pakistan, which may in turn lead to foreign exchange inflows (Beg, 2005). An increasing trend in the growth of VPS can be seen over the years.

Conclusion

To conclude, VPS provide opportunity for investors to create diversified portfolios according to their profile and preferences, better tax exemption policy and portability. Such schemes are of great relevance in a country like Pakistan where a large number of employers do not offer pension benefits to their employees. As indicated above, the net assets under VPS have increased significantly from 2015 to 2016 and it is anticipated that the size of such funds will increase even further in the years ahead.

References

All information presented in the article is extracted from the websites of:

-Fund managers (Al Meezan Group, HBL Asset Management, MCB-Arif Habib Savings and Investments Limited, NBP Fullerton Asset Management Limited);

-Securities and Exchange Commission of Pakistan (SECP);

-Mutual Funds Association of Pakistan (MUFAP);

-JamaPunji.

Authority

The Corporate Law Authority constituted under the Companies Ordinance, 1984 (XLVII of 1984).
-*Securities and Exchange Commission of Pakistan Act, 1997*

Constitutive Document

The principal document governing the formation of the pension fund, and includes the trust deed of a pension fund and all material agreements.

-*Voluntary Pension System Rules, 2006*

Participants' Investment Fund

A separate fund comprising of the underlying assets representing the units of the PIA under a Family Takaful plan.

-*Takaful Rules 2005*

Secured

Exposure backed by Tangible Security and any Other Form of Security with appropriate margins (in cases where margin has been specified by the Commission appropriate margin shall at

least be equal to the specified margin).

-*Non-Banking and Finance Companies and Notified Entities Regulations, 2008*

Unlisted Debt Security

A debt security not listed or quoted on a stock exchange.

-*Non-Banking and Finance Companies and Notified Entities Regulations, 2008*

Voting Shares

The shares in the share capital of a listed company having voting rights.

-*Securities Act, 2015*

GET YOURSELF REGISTERED!

1st September, 2017

Last Date for Registration for **24th September, 2017**
Examination

REGISTRATION



Investor Education and Awareness Fund Rules, 2017

The Securities and Exchange Commission of Pakistan has notified the draft Investor Education and Awareness Fund Rules, 2017, to obtain public opinion.

The rules explain the legal framework for management and control of investor education fund. As per the rules, the investor education fund will be managed and controlled by the SECP in a separate bank account and necessary books of accounts will be maintained for proper management of the fund. The SECP will prepare the annual plan of investor awareness activities to be funded through the said fund. An advisory committee consisting of members from stock exchange, Central Depository Company, market intermediaries, academia and representatives from the corporate sector will also be constituted.

The regulations provide the regulatory framework regarding the deposit of unclaimed shares, dividends and other instruments, their process of sale, claiming of refunds and filling of annual returns. The establishment of the Investor Education and Awareness Fund will ensure sustainability in execution of the SECP's expanded investor advocacy, education and outreach activities.

25 New Amendments to Finance Bill

The government has introduced 25 new amendments to the Finance Bill 2017, most of them relating to income tax measures. 12 out of 25 amendments are related to income tax measures, 10 to sales tax and three to customs duty.

These amendments were introduced following recommendations from senators and other stakeholders. These amendments along with budgetary measures will come into effect from July 1.

The tax incentives package of information technology has been extended to IT-enabled companies as well. The rate of tax has been further reduced to 1% from 2% for five export-oriented sectors textile, leather, sport, surgical and carpet. To facilitate oil companies, the government has exempted the procedure to apply for exemption certificate for the import of oil. The tax rate on dividend income of up to Rs.2.5 million from mutual fund investments has been decreased from 12.5% to 10%, and the new rates of capital gains tax will not apply on securities purchased before July 1, 2016. The tax on services of Pakistan Stock Exchange and Pakistan Mercantile Exchange has been reduced from 8% to 2%, for secondary market development, tax on listed derivatives has been reduced from 15% to 5% for a period of three years.

Draft Regulations for NGOs

The Securities and Exchange Commission of Pakistan has notified the draft Associations with Charitable and Not-for-Profit Objects (Licensing and Corporate Governance) Regulations, 2017, to obtain public opinion.

The regulations specify procedure for grant of licenses to charitable and non-profit associations, incorporation of association as a public limited company, conditions applicable to such companies, fit and proper criteria for the promoters, members, directors and chief executive officers.

The associations may apply for grant of license for the promotion of a single or multiple objects. The SECP may grant the license if the promoters, proposed directors and chief executive officers are compliant with the fit and proper criteria. Within 30 days of getting the license, the association shall apply for its incorporation as a company.

Draft Companies, LLP Regulations Notified

The SECP has notified draft Companies (Incorporation) Regulations, draft Intermediaries (Registration) Regulations and draft Limited Liability Partnership (LLP) Regulations for the year 2017.

The companies` regulations specify a simplified procedure for incorporating a company and procedure for company registration.

The intermediaries` regulations specify requirements for intermediaries, who will be authorized to file statutory returns, documents or reports to the registrar or the SECP on

behalf of companies.

The LLP regulations specify the form and manner of registration of LLP, fitness and propriety of designated partners, accounts and audit requirement and conversion of existing firms and private limited companies to LLP.

URDU GLOSSARY

Bankrupt	دیوالیہ
Concentration	ارتکاز
Enforcement	نفاذ
Guarantor	ضامن
Inapplicable	ناقابل اطلاق
Legacy	میراث
Micro Insurance	مائیکرو انشورنس، خرید بیمہ
Plaintiff	مدعی
Quantity Surveyor	پیمائش کار مقدار
Rational	معقول، منطق پر مبنی
Segregate	دوسروں سے علیحدہ کرنا
Transparency	شفافیت



Index investing outperforms active management year after year.

- **Jim Rogers**

To be a successful business owner and investor, you have to be emotionally neutral to winning and losing. Winning and losing are just part of the game.

- **Rich Dad**

Historically, there has been a bull market in the commodities every 20 or 30 years.

- **Jim Rogers**



I have found that when the market's going down and you buy funds wisely, at some point in the future, you will be happy. You won't get there by reading. Now is the time to buy.

- **Peter Lynch**



Money can't buy happiness. You also need high-yield stocks, prime real estate, and a solid credit rating!

Look at market fluctuations as your friend rather than your enemy. Profit from folly rather than participate in it.

- **Warren Buffett**

Monthly Review

	Crude Oil	
	(WTI)	
	Beginning	48.38
	Ending	45.58
	Change	-2.8

	KIBOR (6 Months)	
	Bid %	Offer %
	Beginning	5.91 6.16
	Ending	5.90 6.15
	Change	-0.01 -0.01

	Pakistan Stock Exchange	
	100 Index	
	Beginning	50,591.57
	Ending	46,565.29
	Change	-4026.28

	Gold	
	10 Grams	
	Beginning	Rs.42,814
	Ending	Rs.43,114
	Change	+300

	Silver	
	10 Grams	
	Beginning	Rs.625.71
	Ending	Rs.617.14
	Change	-8.57

Source:
forex.com.pk
sbp.org.pk

	Foreign Exchange Rates					
	Interbank Market					
	GBP (£)		EURO (€)		USD (\$)	
	Buying	Selling	Buying	Selling	Buying	Selling
Beginning	Rs.134.31	Rs.134.57	Rs.117.01	Rs.117.23	Rs.104.70	Rs.104.90
Ending	Rs.136.42	Rs.136.68	Rs.119.91	Rs.120.14	Rs.104.80	Rs.105.00
Change	+2.11	+2.11	+2.9	+2.91	+0.1	+0.1

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