

INSTITUTE OF CAPITAL MARKETS

NEWSLETTER NOVEMBER 2015

MESSAGE FROM CHIEF EXECUTIVE OFFICER

The last few years have seen a progressive change in size, quality and sophistication of capital markets because of modifications in policies, regulations, entrepreneurial initiatives and availability of trained manpower at individual and organizational scale. The continual growth of capital markets further demands for qualified and well-trained professionals.

Institute of Capital Markets (ICM) plays a pioneering role in meeting the demand of the educated manpower by educating and updating knowledge of capital market participants such as investors, brokers, mutual funders, investment bankers and policy makers by following high-quality educational standards.

The institute's main activities are (1) Licensing the professionals working in the capital markets by certifications in order to examine their knowledge 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.

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:
PKR 5,000/-

Examination Registration:
PKR 5,000/-

[Effective till 30th June, 2016]

Grandfathering

PKR 30,000/- (for 3 certifications)

PKR 20,000/- (for 2 certifications)

[Effective till 31st December, 2015]

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Asset Management Companies

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In financial market, Asset Management Companies are those which provide clients with diversified investment plans for their funds. It invests the clients' pooled fund into securities that match their declared financial objectives.

An "asset manager" is a money handling expert that provides guidelines and market insight to clients so that they invest in the right option with respect to their venture, affordability and risk. From studying the client's assets to planning and looking after the investments, all things are looked after by the asset managers.

Asset management companies are good for economy as they boost circulation of funds in financial sector that encourage new business ideas to enter the market. There are more than 23 asset management companies which are operational in Pakistan and are members of MUFAP.

Asset management also enables an organization to examine the need for, and performance of, assets and asset systems at different levels. Additionally, it enables the application of analytical approaches towards managing an asset over the different stages of its life cycle which can start with the conception of the need for the asset, through to its disposal, and includes the managing of any potential post disposal liabilities.

Asset Management is the art and science of making the right decisions and optimizing the delivery of value. A common objective is to minimize the whole life cost of assets but there may be other critical factors such as risk or business continuity to be considered objectively in this decision making.

It is mandatory for all the Asset Management Companies to comply with rules and circulars forwarded by SECP to maintain ethical as well as operational standards of working. It is essential for all the staff, representatives as well as back office to clear professional certifications of Fundamentals of Capital Markets, Pakistan Market Regulation, Stock Brokers Certifications and Mutual Fund Distribution.

With qualified as well as certified workforce, Asset Management Companies of Pakistan have a future with people having more faith over financial system which is free of fraudulent practices.

Although if we see the local market there is still a lot much to be done to create awareness among the potential investors. People need to know about the existence of different options available for investment (Mutual funds being the one of them), they also need to know about the risks and returns associated with these kind of investments and the tax benefits which can be availed by investing in mutual funds.



Investor's Terms of the Month

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ACTIVE MANAGEMENT

An actively managed investment fund is one where your money is invested in a portfolio of assets selected by a professional fund manager. Each fund manager constantly monitors companies, economic conditions and markets, and decides where it's best to invest to meet the investment fund's objectives.

SWITCHING

Switching is when you change your fund choice. You can make a switch at any time and this service is currently free of charge. You can switch online if you're registered with My Account. If you decide to switch into a unit class with an initial charge, the initial charge may be taken.

MANAGEMENT FEE

A charge made for running your fund. It is usually a percentage of your investment. It is calculated either on semi-annual or annual basis.

OPEN-ENDED INVESTMENT COMPANIES

OEICS are similar to unit trusts, but are established as companies that issue shares to investors. Often, OEICS are made up of a series of sub-funds. Each sub-fund has its own investment objective. The value of each sub-fund, and each share price, is usually calculated on a daily basis.

PROSPECTUS

A legal document provided by businesses to describe the investments/products they offer customers. The Prospectus usually provides investors or potential investors

with fund information.

MONTHLY/REGULAR INVESTMENT

An investor can choose to make monthly contributions to their chosen investment fund, known as regular investing. The minimum monthly contribution is PKR 500 for an individual investment account or unit trust investments. There is no maximum monthly contribution for unit trusts.

High-Water Mark

A high-water mark is a threshold over which the NAV must increase before a performance fee is payable from the fund to the manager.

NOMINEE

Is a company or person who looks after the ownership of investments on behalf of someone else.

MULTI MANAGER FUNDS

Multi Manager investment funds allow you to invest in several funds at the same time through one simple investment. Professional fund managers select, monitor and change the underlying funds based on set criteria, for example, the investment quality and investment objective of the providers. Each multi manager investment fund holds a mix of funds covering many different types of asset, industry sectors and markets. The funds may also be sourced from more than one provider.

OFFER PRICE

The price at which we 'sell' units to customers.

Technologies Revolutionizing Finances

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From corporate to retail level, the financial sector is facing competition from innovative business models and new competitors. Slow innovations in businesses, have turned into pressurizing shrinking margins and tighter regulatory requirements.

Innovation is the key to growth and competitive differentiation. The institutions most likely to survive are those that are willing to effectively develop new products, services, and channels in response to the changing market environment.

Following are some technologies that have revolutionized our financial systems and prepared us for a demanding era.

Digital Payment Channels

While mobile payments and micro payments have been growing rapidly over the past years and more and banks are offering mobile payment solutions, there are still few that offer a truly unique and convenient user experience. Banks in particular have the challenge that rolling out new products and services can be a complex process due to the vast amount of systems that are integrated and the rollout of new online banking channels can be a timely and complex process.

Content Personalization

Personalizing the user experience is becoming more and more important for every business, but especially for banks, whose customers need to trust the brand and not feel like just another account number. Content

personalization can help to achieve this objective by creating custom cross-channel experiences for customers.

Technology for Convenience

Banks and financial institutions can create mobile branches driven by technology so customers can do most banking tasks from their home or in the bank more efficiently. The This Siri-like virtual assistant is now being launched at banks in Spain, the U.K., and the U.S.A. The Commercial Bank of Dubai recently launched their mobile branch that allow customers to interact with the bank directly using virtual assistance applications, live chats, personal finance planning, or calculators.

Concierge Service

Many banks are now offering concierge services, which are not only tailored to private banking clients, but more so to customers across the board, enabling them to perform certain tasks in a more convenient way. The bank branch sends out “mobile bankers” to enable customers to open new accounts or take out card loans—usually services that require a signature. Account openings and new product sales are the main objective of such a service.

Personal Finance Management

This helps to provide a service to customers by giving them more functionality to plan and manage their finances beyond conventional online banking functions. It also allows banks to get a better understanding of their customers and their spending habits for use during product development.

International Newsfeed

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BANKS EMBRACE 'THE AGE OF ASSET MANAGEMENT'

"The age of asset management is upon us," said Andrew Haldane, chief economist of the Bank of England. Mr Haldane wanted to highlight the growing influence of the investment industry against the backdrop of the declining power of the banking sector and the potential risk this posed to financial stability. But the global banking industry, which has been hurt after the financial crisis by stricter regulation and substantial fines, is not blind to its loss of influence, or the growing attractiveness of running sizeable investment businesses.

Asset management divisions at global banks now contribute a much higher proportion to group profits and revenues, and the expectation is that the importance of their investment units will continue to grow. The six largest bank-owned asset managers in Europe contribute 7 per cent on average to group revenues, up from 3 per cent historically, according to McKinsey, the consultancy. Asset management also accounts for around 11 per cent of group profits, up from 7 per cent historically.

RUPEE RANGE-BOUND AGAINST DOLLAR

THE rupee remained > largely range-bound against the dollar last week as major currency dealers were said to have remained on the sidelines, awaiting the central bank's monetary policy announcement late in the week.

On the interbank market, the rupee commenced the week by losing two paises, sending the dollar up at Rs105.45 and Rs105.47 in the first trading session against the prior week's close of Rs105.43 and Rs105.45. But it managed to recover one-paisa in the second trading session, as the dollar slipped to Rs105.44 and Rs105.46. However, higher dollar demand in the third trading session led the rupee to shed three paises, allowing the greenback to go up to Rs105.47 and Rs105.49 for the day.

RENMINBI MAY MAKE SDR A BETTER STABILISER

THE inclusion of the Chinese currency into the IMF's basket of currency reserves looks imminent now. Some domestic investors are very excited about the expected rise in overseas demand for the Chinese currency and assets that may help boost the stock market at home. At the same time, a section of international media have played down the decision as being of token importance because the IMF's Special Drawing Right assets remain little used other than as an accounting device.

The first wishfully exaggerates the benefit of the Chinese currency acquiring the status of a global reserve currency and ignores that it will also facilitate outflows of domestic capital.

China became a net capital exporter for the first time last year, and latest statistics show that China has made about 589.2bn yuan (\$95bn) in nonfinancial investments in overseas markets in the first ten months of 2015, up 16.3pc year-on-year.

Markets at a glance...

| Monthly Review | Crude Oil (WTI) | Foreign Exchange Rates | | | KSE | Gold Rate |
|----------------|-----------------|------------------------|------------|------------|-----------|------------|
| | | GBP(£) | EURO(€) | USD(\$) | 100 Index | (10 gm) |
| Beginning | \$ 46.60 | PKR 162.94 | PKR 116.04 | PKR 105.40 | 33,954 | PKR 38,761 |
| Ending | \$ 40.43 | PKR 161.50 | PKR 113.80 | PKR 106.60 | 32,255 | PKR 38,483 |
| Change | -6.17 | -1.44 | -2.24 | +1.20 | -1699 | -278 |

Domestic Newsfeed

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TWO-DAY US-PAKISTAN BUSINESS OPPORTUNITIES CONFERENCE

Washington - A two-day US-Pakistan conference was held in Washington to present business opportunities in Pakistan's clean energy sector. To be hosted by USAID, the conference was attended by American, international, and Pakistani clean energy project developers and investors. Launched earlier this year, the U.S.-Pakistan Clean Energy Partnership seeks to advance energy sector reforms, improve Pakistan's investment framework, and ultimately add 3,000 megawatts of clean energy by 2019.

USAID's Assistant to the Administrator for Afghanistan and Pakistan Affairs Larry Sampler, Pakistan's Minister for Water and Power Khawaja Muhammad Asif, and Pakistan's Ambassador to the U.S. Jalil Abbas Jilani provided opening remarks on the first day of the conference.

Prime Minister Nawaz Sharif has emphasized the importance of energy as one of the government's critical priorities. Energy demand is expected to double by 2030. The holding of the conference was agreed during the visit of the Prime Minister to the United States in October. The conference supported significant new private sector investments in Pakistan in clean energy generation, transmission, and distribution. Since 2009, the United States and Pakistan have established intense cooperation on energy, coordinated through the Energy Working Group under the US-Pakistan Strategic Dialogue.

CUSTOMS DEPARTMENT IS THERE TO FACILITATE BUSINESS COMMUNITY

KPK - The Customs Department has embarked upon a policy of facilitating business community of the country by providing them maximum facilities besides generating revenue for the official kitty, said Qurban Ali Khan, Peshawar Customs Collector. The customs collector said that the whole department had been computerized to facilitate speedy processing of documentation relating to clearance of goods for imports and exports. He added, there was only one collector in the customs department for the whole Khyber Pakhtunkhwa (KP), FATA

and Gilgit Baltistan, but now there were around 1,000 customs officials in KP. Now Customs Collectorate has become a progressive organization where no one can fleece the traders in name of documentation, he said.

Today around 600 trucks are crossing border from Parachinar to Afghanistan on daily basis and similarly trucks are coming here loaded with goods including fresh fruit and other items. For the first time in the history of the country, import of furnace oil has been allowed from Torkhem border. Similarly, import of coal has also started creating more economic activities in the region.

INTENSIVE EFFORTS HAVE BOOSTED NATIONAL ECONOMY

Pakistan offers one of the world's best investment regimes with equal opportunities for local and foreign investors covering all sectors, Consul General Faisal Tirmizi has said.

Briefing a gathering of students, faculty and general public about "Economic Opportunities in Pakistan" at the Center for Global Studies at Purdue University, he said Pakistan government's intensive efforts had led to a robust economic growth in a short span of time.

With a thriving middle class of 50 million, a per capita income of nearly US\$ 5,000 in terms of purchasing power and workforce of under 30 years age bracket, Pakistan is the ideal investment magnetized gateway to Asia, Tirmizi told the gathering.

The Consul General further said that leading international publications, funds managers and rating agencies had acknowledged Pakistan's outstanding economic turnaround.

Bloomberg had described Pakistan as the best undiscovered frontier market; Morgan Stanley's Vice President predicted that the rise of Pakistan was only a matter of time, on account of its strategic location and demographic dividends; Moody's had upgraded Pakistan from CAA 1 to B-, while Standard and Poor's have improved our outlook to positive.

Regulatory Newsfeed

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Regulatory duty on import goods increased

After failing to achieve the tax targets for the year, government has decided to take the revenge from the public by increasing the regulatory duty on the import goods by 1%. As a result, the prices of commodities like televisions, air-conditioners, refrigerators and microwave ovens are expected to rise.

According to details, the tax department wasn't able to meet its targets of tax collection and now the common people of Pakistan will have to pay for their failure in terms of custom duties and the increase in consumer prices eventually.

Under the revised duties, the prices of air-conditioner, refrigerators, and TV will increase by Rs. 3000 to Rs. 4000 more. The duty has also been imposed on importing cars and cigarettes. However the new revised duties will not be implemented on sugar and fertilizer.

SECP revamps regulatory framework for NBFCs

The Securities and Exchange Commission of Pakistan (SECP), with the approval of Federal Government, has notified amendments in Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, Non-Banking Finance Companies and Notified Entities Regulations, 2008 and notified Private Fund Management Regulations, 2015. Through the said amendments, NBFCs have been categorized into two categories i.e. Lending NBFCs and Fund Management NBFCs.

A new class of NBFCs i.e. Non-Bank Micro Finance Companies along with comprehensive framework for providing finance to poor persons and micro enterprises has been introduced. The existing Non-Bank Micro Finance Institutions would also be regulated under NBFC regime.

Concept of alternative funds for high net worth investors has been introduced by prescribing a separate frame work for private fund management. This will facilitate launching of different types of funds like hedge funds, infrastructure fund, SME fund, debt fund etc. as per the risk appetite of eligible investors.

The concept of Capital Adequacy Ratio (CAR) has been introduced for deposit raising NBFCs and deposit raising ability of NBFCs has been linked with equity, credit rating and CAR requirements. Existing NBFCs have been allowed one year to comply with the new minimum equity, CAR and rating requirements.

ECC meets today to levy Rs40 billion new taxes

The Securities and Exchange Commission of Pakistan (SECP), as part of subsidiary legislation under the Securities Act, 2015, has issued the Draft Credit Rating Companies Regulations, 2015 (Draft Regulations) for consultation purposes. The draft regulations have been prepared keeping in view the international practices including the guidelines issued by International Organization of Securities Commissions (IOSC) for credit rating companies.

The regulations introduce detailed "fit and proper criteria" for the sponsors, directors and senior management of a credit rating company. Keeping in view the significance of a rating analyst in the rating process, fit and proper criteria has also been specified for the analyst. In order to avoid potential conflict of interest, adequate provisions have been included in the draft regulations regarding disclosure and shareholding of the credit rating companies. The regulations also prescribe best governance practices, obligations for credit rating companies and enhanced conduct of business requirement.

