

GOVERNMENT OF PAKISTAN

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Islamabad the, 3rd February, 2014

NOTIFICATION

S.R.O. **80** (I)/2014. The following draft of the Employees' Provident Fund (Investment in Listed Securities) Rules, 2014 proposed to be made by the Securities and Exchange Commission of Pakistan with the approval of the Federal Government in exercise of the power conferred by section 506 of the Companies Ordinance, 1984 (XLVII of 1984) read with clause (b) of section 40 of the Securities and Exchange Commission of Pakistan Act, 1997 (XLII of 1997), is published for the information of all persons likely to be affected thereby, and, as required by the proviso to sub-section (1) of the said section; notice is hereby given that the draft will be taken into consideration after fourteen days of its publication in the official Gazette.

Any suggestions or objections that may be received from any person before expiry of the said period shall be considered by the Commission:-

DRAFT RULES

1. **Short title and commencement.**- (1) These rules may be called the Employees' Provident Fund (Investment in Listed Securities) Rules, 2014.

(2) They shall come into force at once.

2. **Interpretation.**- In these rules, all words and expressions used but not defined shall have the same meanings as are assigned to them in the Companies Ordinance, 1984 (XLVII of 1984), the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

3. **Limit for investment in listed securities.**- Where it is decided to make investment out of the employees' provident fund in securities listed on any stock exchange in Pakistan, including shares of companies, bonds, redeemable capital, debt securities, equity securities and listed collective investment schemes registered as notified entity with the Commission under Non-Banking Finance Companies and

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Notified Entities Regulations 2008, such investments shall not exceed seventy per cent of the size of the employees' provident fund subject to the following limits namely:-

- (a) total investment in money market collective investment schemes registered as notified entity with the Commission under Non-Banking Finance Companies and Notified Entities Regulations, 2008, shall not exceed seventy per cent of the size of the employees' provident fund; and
- (b) total investment in listed equity securities, listed debt securities and listed collective investment schemes, except money market collective investment schemes, registered as notified entity with the Commission under Non-Banking Finance Companies and Notified Entities Regulations 2008 shall not exceed thirty per cent of the size of the employees' provident fund.

4. **Conditions for investment listed securities.**- Where it is decided to make, out of employees' provident fund, investment in shares of companies, bonds, redeemable capital, debt securities, collective investment schemes or similar instruments listed on any stock exchange in Pakistan, such investment shall be subject to the following conditions, namely:-

- (a) where investment is made in equity securities of listed companies, it shall be made only where such companies,—
 - (i) have a minimum operational record of three years; and
 - (ii) have exhibited average total return on investment, not less than prevailing risk free rate+50 basis point at the time of investment.

Explanation. The "total return" and "average total return" in these rules shall be calculated as follows:-

Total Return = (Value of investment at the end of the year – Value of investment at beginning of the year) + Dividends / Value of investment at beginning of the year

Average total Return= $\frac{\text{total return year 1} + \text{total return year 2} + \text{total return year 3}}{3}$

- (b) where investment is made in listed debt securities of a company, it shall not be made unless such securities have been assigned a minimum rating of "AA" by a credit rating company registered with the Commission under Credit Rating Companies Rules, 1995, and with at least a stable outlook at the time of investment;
- (c) where investment is made in collective investment schemes which may invest in listed debt securities, the investment policy of such scheme shall be in line with the criteria given in clause (b);
- (d) where investment is made in listed money market collective investment schemes, it shall be made only in those money market schemes which have exhibited average total return on investment, not less than prevailing risk free rate at the time of investment;
- (e) where investment is made in listed collective investment schemes other than money market collective investment schemes, it shall be made only in the units of the scheme which have exhibited average total return on investment, not less than prevailing risk free rate+50 basis point at the time of investment;
- (f) where it is decided to make, out of the employees' provident fund, aggregate investment in listed securities, other than collective investment schemes, of fifty million rupees or above or twenty percent of the size of the employees' provident fund, whichever is lower, the employees' provident fund shall appoint or seek advice from investment advisor holding a valid license from the Commission for providing investment advisory services and in this case the conditions for investment prescribed in clause 4(a) shall not be applicable;
- (g) where it is decided for the employees' provident fund, to transact its equity investments through off market transaction, the price at which the shares are bought shall not be higher than the prevailing market price and the price at which the shares are sold shall not be less than the prevailing market price;
- (h) the aggregate investment in listed equity and listed debt securities of a particular company shall be restricted to ten per cent of the size of the employees' provident fund, subject to the following conditions, namely:-
 - (i) investment in listed equity securities shall not exceed five per cent of the paid up capital of the investee company; or
 - (ii) investment in listed debt securities shall not exceed five per cent of that issue;

- (i) where from the employees' provident fund, it is decided to make investment in listed securities of such company which constituted it or in listed securities of its associated companies and associated undertakings, the aggregate investment shall not exceed ten per cent of the size of its employees' provident fund;
- (j) the aggregate investment in collective investment schemes, other than money market schemes, managed by a single asset management company shall not exceed ten per cent of the size of the employees' provident fund provided that, in case of money market listed collective investment schemes managed by a single asset management company, the aggregate investment in listed collective investment schemes shall be restricted to thirty per cent of the size of the employee's provident fund;
- (k) the aggregate investment in initial public offers (IPO) shall be restricted to five per cent of the size of the employees' provident fund every six months in a calendar year subject to the following conditions, namely:-
- (i) the aggregate investment in one IPO shall be restricted to one per cent of paid-up capital of the investee company or two per cent of the size of the employees' provident fund whichever is lower;
 - (ii) investment in IPO out of the employees' provident fund shall be made in companies having profitable operational record of at least three years; and
 - (iii) employees' provident fund shall not subscribe to an IPO underwritten, co-underwritten or sub-underwritten by its group companies or associated undertakings;
- (l) investment shall not be made in a listed security if issuer of the security has defaulted or re-scheduled any of its financial obligations; and
- (m) the employees' provident fund shall develop and maintain appropriate investment policies explaining investment limit, investment avenues and risk appetite.

5. Powers of Commission to relax Rules.- Where the Commission is satisfied that it is not practicable to comply with any of the condition or conditions of these rules, in a particular case or class of cases, the Commission may, for reasons to be recorded and subject to such conditions as it may deem fit, relax any of the conditions specified in rules 3 and 4 in the case of such company or class of companies.

6. Penalty.- Whosoever fails or refuses to comply with or contravenes any of the

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provisions of these rules or knowingly and willfully authorizes or permits such failure, refusal or contravention shall, in addition to any other liability under the Companies Ordinance, also be punishable with fine which may extend to five hundred thousand rupees and, where the contravention is a continuing one, with a further fine which may extend to ten thousand rupees for every day after the first during which such contravention continues.

7. **Repeal.**- The Employees' Provident Fund (Investment in Listed Securities) Rules, 1996 are hereby repealed.

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(BUSHRA ASLAM)
SECRETARY TO THE COMMISSION