

PART -II
Statutory Notification (S.R.O)

GOVERNMENT OF PAKISTAN

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Islamabad the, 17th August, 2016

NOTIFICATION

S.R.O 770 (I)/2016. In exercise of the powers conferred by section 506 of the Companies Ordinance, 1984 (XLVII of 1984), read with clause (b) of section 43 of the Securities and Exchange Commission of Pakistan Act, 1997 (XLII of 1997), the Securities and Exchange Commission of Pakistan, with the approval of the Federal Government, is pleased to make the following rules, the same have been previously published vide Notification No. S.R.O. 80(I)/2014, dated the 3rd February, 2014, as required by sub-section (1) of the said section 506 namely:—

1. **Short title and commencement-**(1) These rules may be called the Employees' Provident Fund (Investment in Listed Securities) Rules, 2016.
 - (2) They shall come into force at once.
 - (3) **Transition.**-Within two years from the commencement of these rules, all investments from the provident funds or trust shall be brought in conformity with the provisions of these rules.
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 Pakistan 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 Notified Entities Regulations, 2008, such investments shall not exceed fifty percent of the size of the employees' provident fund subject to the following limits, namely:-

- (a) total investment in listed debt securities, listed debt collective investment schemes and 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 fifty per cent of the size of the employees' provident fund; and
- (b) total investment in listed equity securities and listed equity 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 Pakistan 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 defined as the rate on which 6 months T-Bill are issued+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:

Provided that,

- (i) a provident fund may be invested up to 10% of the size of the employees' provident fund in listed debt securities rated AA- to A-; and
 - (ii) the Commission may, from time to time, change the minimum rating of a security assigned in this clause;
- (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 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:

Provided that the Commission may, from time to time, change the minimum rating of a security assigned in this clause;

- (e) where investment is made in listed equity 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 defined as the rate on which 6 months T-Bill are issued +50 basis point at the time of investment;
- (f) the aggregate investment in listed equity securities of a particular company shall be restricted to ten per cent of the size of the employees' provident fund or five per cent of the paid up capital of the investee company whichever is lower;
- (g) the aggregate investment in listed debt securities of a particular company shall be restricted to ten per cent of the size of the employees' provident fund or five per cent of that issue, whichever is lower;
- (h) the aggregate investment in listed equity securities of constituting company or its associated companies out of employees' provident fund shall not exceed five per cent of the size of employees provident fund;
- (i) the aggregate investment in listed debt securities of constituting company or its associated companies out of employees' provident fund shall not exceed five per cent of the employees' provident fund;
- (j) the aggregate investment in money market listed collective investment schemes managed by a single asset management company shall be restricted to twenty per cent of the size of the employee's provident fund;
- (k) the aggregate investment in any single listed equity collective investment scheme shall not exceed ten per cent of the size of the employees' provident fund;
- (l) the aggregate investment in initial public offers (IPO) of equity securities 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 of equity securities 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 of equity securities 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 of equity securities

underwritten, co-underwritten or sub-underwritten by its associated companies or associated undertakings;

- (m) investment shall not be made in a listed security if issuer of the security has defaulted any of its financial obligations and in listed security of such company which is on the defaulter segment of Pakistan Stock Exchange; and
- (n) the employees' provident fund shall develop and maintain appropriate investment policies explaining investment limit, investment avenues and risk appetite including but not limited to business allocation among the brokers. Moreover, the employees' provident fund 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.

5. **Mandatory submission regarding investments out of provident fund trust.**-Every company, constituting the provident fund or Trust, as the case may be, shall within one month of the close of every six months of the financial year of such fund or trust, as the case may be, submit to the Commission financial information of the fund or trust, as the case may be, as contained in the Annexure "A" to these rules.
6. **Penalty.**- Whosoever fails or refuses to comply with or contravenes any of the 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, 1984 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 subsequent day during which such contravention continues.
7. **Repeal and Saving.**-(1).The Employees' Provident Fund (Investment in Listed Securities) Rules, 1996 and Notification No.S.R.O. 261(I)/2002 dated the 10th May, 2002 are hereby repealed.

(2). Save as otherwise specifically provided in these rules, nothing in these rules shall affect or be deemed to affect anything done, action taken, investigation or proceedings commenced, order made unless withdrawn, conveyance, mortgage deed, document or agreement made, fee directed or paid or accrued, resolution passed, direction given, proceedings taken or instrument executed or issued, under or pursuant to these rules and any such things, action, investigation, proceedings, order, appointment, conveyance, mortgage deed, document, agreement, fee, resolution, direction, proceedings or instrument shall if in force at the coming into force of these rules and not inconsistent with any of the provisions of these rules continue to be in force and have effect as if it were respectively done, taken, commenced, made, directed, passed, given, executed or issued under these rules.

Mandatory disclosures regarding Investments out of Provident Fund:

Particulars	Audited/Un-audited	Audited
	2015	2014
	Rs.	Rs.
Size of Fund-Total Assets	xxx	xxx
Cost of Investments out of Provident Fund/Trust	xxx	xxx
Fair Value of Investments out of Provident Fund/Trust	xxx	xxx
Percentage of Investments out of Provident Fund/Trust	xx	xx

Break-up of Fair Value of Investments out of Provident Fund/Trust

Particulars	Year 2015		Year 2014	
	Rs.	% of investment	Rs.	% of investment
Investment in Listed Debt Securities	xxx	xx	xxx	Xx
Investment in Listed Equity Securities	xxx	xx	xxx	Xx
Investment in listed Debt Collective Investment Schemes	xxx	xx	xxx	Xx
Investment in Listed Equity Collective Investment Schemes	xxx	xx	xxx	Xx
Investment in Government Securities	xxx	xx	xxx	Xx
Bank Balances	xxx	xx	xxx	Xx
Others	xxx	xx	xxx	Xx

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Bushra Aslam
Secretary to the Commission

