



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
SPECIALIZED COMPANIES DIVISION
POLICY, REGULATION AND DEVELOPMENT DEPARTMENT

No. SCD/CIRCULAR/356/2015

May 15, 2015

Circular No. 18 of 2015

**REQUIREMENTS FOR CONSTANT PROPORTION PORTFOLIO INSURANCE (CPPI) BASED
COLLECTIVE INVESTMENT SCHEMES**

The Securities and Exchange Commission of Pakistan ("the Commission") in exercise of the powers conferred under section 282B (3) of the Companies Ordinance, 1984 read with the Regulation 38(n) and 55(2) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 hereby directs all Asset Management Companies (AMCs) to comply with following requirements in respect of Collective Investment Schemes (CIS) under their management, based on Constant Proportion Portfolio Insurance (CPPI) methodology or any modified version of such methodology.

1. An AMC shall ensure that the maximum Multiplier (i.e. multiple of Cushion Value available for investment in risky assets including equity instruments as per the CPPI methodology, as may be defined in CIS offering documents) used to arrive at exposure in risky assets including equity does not exceed the following limits in relation to the Cushion Value Percentage (i.e. $(\text{Portfolio Value} - \text{Bond Floor}) / \text{Portfolio Value}$):

Cushion Value Percentage	Maximum Multiplier
0% - 2.5%	0
2.6% - 5%	2
5.1% and greater	4

Further, where an AMC locks-in the profit, it shall add the profit to the Bond Floor (present value of the amount on maturity date of the CIS) and recalculate the Cushion Value accordingly.

2. The CIS which are currently using more than the above maximum Multiplier shall comply with the above-mentioned requirements within 120 days from the date of issuance of this Circular as per following:
 - i. The Multiplier used by the AMC for each CIS shall not exceed the current level of Multiplier being used.
 - ii. The equity portfolio of the CIS shall be realigned on a diminishing basis.
3. The AMCs shall exercise prudence while ensuring compliance with the Circular and taking into consideration the long-term interests of the unitholders of Fund of Funds (where applicable) and those of the underlying CIS.
4. An AMC shall immediately rebalance the asset composition of the CIS in accordance with its approved methodology disclosed in the offering documents of the CIS, at least on 2% decline



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in Portfolio Value of the CIS from the previous rebalancing or on weekly basis, whichever falls earlier.

5. An AMC shall use the running yield of the underlying fixed income asset or fixed income CIS, in case of Fund of Funds, to compute the Bond Floor daily on the following basis:
 - a. For direct investment in money market instruments, it shall be the present relevant yield of the government security with a similar maturity;
 - b. For investment through money market mutual funds, the actual yield of the fund based on current portfolio.

The AMC may use a more conservative yield to determine a Bond Floor that is higher than the one derived after using a yield as specified in the above clauses.

6. The Board of Directors of the AMC shall formulate and approve liquidity management policy that enables timely reallocation of portfolio to effectively achieve investment objective of the CIS.
7. An AMC shall disclose the range (minimum and maximum) of Multiplier applied for every CIS based on CPPI methodology in its monthly Fund Manager Report.
8. In case of Fund of Funds based on CPPI methodology, the AMC shall exercise fair and equitable treatment of interests of direct investors of the underlying funds (through which the Fund of Funds take exposure) versus the investors of the Fund of Funds.
9. An AMC shall submit a weekly report to the Commission as per Annexure I regarding all CIS based on CPPI methodology.
10. Any non-compliance will be dealt in accordance with prevalent regulatory framework.


(Zafar Abdullah)
Commissioner (SCD)

Distribution:

1. Chief Executives of All Asset Management Companies.
2. Mutual Funds Association of Pakistan.
3. Trustees of Collective Investment Schemes.



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ANNEXURE I

WEEKLY REPORT ON CPPI FUNDS (TO BE SUBMITTED BY COB FRIDAY)

AMC	Fund Name	Net Assets of Fund	Exposure to equity/equity fund	Exposure to fixed income securities/ income fund	Cushion Value (%)	Multiplier	Multiplier range during the week	Maximum Multiplier used since May 15, 2015	Yield used to calculate Bond Floor

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