



**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**  
*International Affairs, Communication & Coordination Department*

No: IACC/SECP/2010

January 11, 2010

**Mr. Syed Adil Gilani,**  
Chairman,  
Transparency International Pakistan,  
5-C, 2<sup>nd</sup> Floor, Khayaban-e- Itehad,  
Phase VII, Defense Housing Authority,  
**Karachi.**

**Subject: Unilateral Discounting of NAFA Cash Fund and Non Transparent Reporting**

Dear Sir,

This is with reference to your letter dated 16th December 2009, addressed to the Chairman Securities and Exchange Commission of Pakistan (the "Commission") on the captioned subject.

We fully appreciate the concern expressed by Transparency International Pakistan regarding the resolution of investor complaints by the Commission.

As you are aware, the Commission's primary objective is investor protection through responsive policy measures and effective enforcement practices as well as mitigation of systemic risk to foster robust corporate sector and broad based capital market in Pakistan. Mutual funds, being pooled investment vehicles, play a vital role in channelizing the savings of multiple investors with a common investment goal to the capital markets. In addition to the provision of a conducive regulatory environment for the growth of mutual funds, the Commission (in accordance with the international best practices) ensures a fair and pari-passu treatment to all the investors of a mutual fund.

You may have observed from contents of the letter of the Complainant that various emails (dated February 24, 2009, March 18, 2009, March 27, 2009 and April 24, 2009) were sent by this office to clarify and explain the context and rationale for the measures taken by the Commission primarily aimed at safeguarding the interest of investors. Nevertheless, we wish to reiterate that the financial crisis of 2008 put the entire financial sector including the mutual funds under severe distress and constraints; especially with respect to liquidity position. As such there was extremely thin or no trading of TFCs (Corporate Bonds) held by mutual funds owing to dormant market conditions and liquidity crunch. As a result, mutual funds were unable to sell their fixed income assets to arrange liquidity except at a deep discount to face value of TFCs. Given no trades in such TFCs, the pricing mechanism entrusted with Mutual Fund Association of Pakistan (MUFAP) for determining/declaring the fair value of TFCs based on quotation of three brokers in terms of volumes became defective. Resultantly, the TFCs prices communicated by MUFAP to its members for arriving at Net Asset Value (NAV) did not reflect the fair value causing an undue advantage to the unit holders who wanted to exit the fund at that moment.



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There were pending redemption requests for over 15 days against the stipulated time period of six days with various mutual funds, owing to the fact that their assets were mainly represented by over valued TFCs and the said funds were neither able to sell nor borrow against these TFCs. Similarly, new unit holders were not entering into the funds as they were at a disadvantage, since the issuance unit price did not reflect fair valuation of assets. As NAV of the units appeared to be over valued due to market conditions for TFCs, there was an apprehension that well informed investors may go for redemption; resultantly there was a serious possibility of unfair treatment to the unit holders who wished to continue holding their units relative to those who wanted to redeem. Furthermore, it was expected that some unit holders may take advantage of the arbitrage opportunities.

Based on the facts elaborated in the preceding paragraphs and to ensure fair treatment to existing as well as potential unit holders of mutual funds, the Commission in exercise of its powers conferred under Section 282D of the Companies Ordinance, 1984 issued directions to all AMCs to ensure fair determination of NAV and safeguard the interest of all the unit holders of mutual fund.

Moreover, it is clear in hindsight that action taken by the Commission proved to be in the best interest of unit holders like the complainant who did not redeem his investments verses the unit holders who were redeeming at inflated Net Asset Values (NAV) in November 2008. We hope that the explanation above enables you to form an adequate understanding of the matter and to appreciate that the Commission acted in the best interest of the unit holders of the mutual fund industry and the same was appropriately explained to the complainant. Nevertheless, should Transparency International Pakistan wish to seek further information we are willing to arrange a meeting where the case could be presented in detail to yourself and the Complainant to ensure all queries on this matter are adequately satisfied.

Kind regards

Yours truly,

**Sarwat Aftab**  
Director

**CC: Adnnan Mansur**  
31-A/2, Johar Town, Lahore.