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PART II

Statutory Notifications (S. R. O.)

GOVERNMENT OF PAKISTAN
CABINET SECRETARIAT

(Establishment Division)

NOTIFICATION

Islamabad, the 21st September, 2020

SUBJECT: Approved Plans of Profitable Ventures under Section 7(f) of FEBF & GI Act, 1969—TORs of the Investment Committee / Investment Parameters

S. R.O. 1034(I)/2020.— In exercise of the powers conferred by section 7 (f) of Federal Employees Benevolent Fund & Group Insurance Act, 1969 (II of 1969), the Federal Government *i.e.* Federal Cabinet is pleased to approve in its meeting held on 01-9-2020 the following Terms of Reference (TORs) of the Investment Committee FEB & GIF/Investment Parameters as approved plans of profitable ventures under Section 7(f) of the Federal Employees Benevolent Fund and Group Insurance Act, 1969, under Case No. 615/34/2020 dated 01-9-2020 communicated *vide* Cabinet Secretariat memorandum No. 34/CM/2020-D dated 4-9-2020. It shall come into force from 1st September, 2020.

2183(1—13)

Price : Rs. 20.00

[6178 (2020)/Ex. Gaz.]

General

2. **Permissible investment avenues:** Following are the permissible investment avenues under these TORs of the Investment Committee/Investment Parameters.

- (1) Direct Obligations of Government of Pakistan (PIBs/T. Bills/NSS etc.)
- (2) Bonds issued by Government of Pakistan backed Institution (Government of Pakistan guarantee)
- (3) Corporate Bonds
- (4) Equities/Shares
- (5) Equity based mutual funds
- (6) Close-end fixed income mutual funds
- (7) Open-end fixed income mutual funds
- (8) Capital protected/preservation mutual funds/similar funds
- (9) Private/Scheduled banks/DFI/NBFI investment schemes like TDR and their Accounts etc.
- (10) Any investment avenue included with the approval of the Board of Trustees, FEB & GIF.

Powers to select and decide investment

3. The Investment Committee is vested with full powers within Section 7(f) of the Federal Employees Benevolent Fund & Group Insurance Act 1969 to examine, select and decide investments in the permissible investment avenues, observing all the conditions provided in these TORs/Parameters. The IC will also examine and advice on actuarial valuations of the Benevolent Fund or Insurance Fund submitted to the Committee.

Powers to make investments

4. The Investment Committee shall approve the investments and re-investments of Funds, in the permissible investment avenues and in the schemes approved by the Board of Trustees. Hence, the Managing Director, upon such approval, will make investments, observing all the conditions provided in these TORs/Parameters, as per the powers delegated to him by the Board of Trustees, under Section 10 of the Federal Employees Benevolent Fund and Group Insurance Act, 1969 (Act II of 1969), which are published in extraordinary gazette through SRO No. 781(1)/85 dated 12-8-1985.

5. Process to be observed for purchase/sale of securities directly from the Issuer or from secondary market in a transparent manner has been defined as per **Appendix-A**.

Purchase of Government Securities

6. The IC while deciding to invest in a government security will examine the following points:

- (a) The security offered by the State Bank of Pakistan/National Savings as defined under the Public Debt Act 1944 amended from time to time.
- (b) In case the security has been offered by any government entity whether it carries government guarantee for payment of profit on due dates and repayment of principal on maturity.
- (c) The purchase of the security has been made in a transparent manner.

Limit of Investment

7. There shall be no limit on investment in government securities.

Purchase of Non-Government Securities

8. The non-government securities, like Debt Instruments, Term Finance Certificates, Shares of the listed companies and Mutual Funds etc., will be purchased subject to fulfillment of following criteria:—

- (a) Non-Government debt instruments *i.e.* TFCs etc. excluding unsecured shall have a minimum credit rating criteria of AA- (double A minus), for entity and AA (double A) for instrument with stable outlook from SECP approved credit rating agency;
- (b) For investment in non-government debt instruments the IC shall examine the audited financials for last three years. In this regard minimum standards in terms of ratio analysis, as specified/revised by the Investment Committee with the advice of a professional Investment Advisory Company will have to be ensured. The IC will critically examine this analysis prior to any decision and ensure compliance of these minimum standards. The said minimum standard for ratio analysis has been specified with the advice of the Investment Advisor as per **Appendix-B**.
- (c) Public/ listed shares/units (equity based mutual funds) should have a total return comprising the dividend paid and appreciation in value, which exceeds the average six months Treasury Bills rate for the last three years.

- (d) Initial Public Offerings (IPOs) of shares of existing companies should have a track record of three year profitability at least equal to the average of twenty best performing companies on Pakistan Stock Exchange (PSX) and the company must not have defaulted on any of its obligations as per available credit rating report or non-performing debt instruments list appearing on Mutual Fund Association of Pakistan (MUFAP) website and must not be on the defaulter's segment of PSX at the time of investment;
- (e) For investment in any kind of mutual funds the following ratings by an approved credit rating agency shall have to be ensured:
- | | |
|---|------|
| (i) Minimum Asset Management Company (AMC) rating | AM2+ |
| (ii) Minimum Funds rating | A |
- (f) Fixed Income mutual funds should have a total return comprising the dividend paid and appreciation in value, which exceeds the average six months Treasury Bills rate for the last three years.
- (g) In case of Capital protected mutual funds the performance of previous funds (minimum two) managed by the same AMC must be better than the relevant tenure government security return *e.g.* PIBs etc.
- (h) For investment in shares, the IC shall examine audited financials of the proposed company for last three years. In this regard minimum standards in terms of ratio analysis, as specified/revised by the Investment Committee with the advice of a professional Investment Advisory Company will have to be ensured. The IC will critically examine this analysis prior to any decision and ensure compliance of these minimum standards. The said minimum standard for ratio analysis has been specified with the advice of the Investment Advisor as per **Appendix-C**.
- (i) Investment in shares of green field projects/companies and shares of non-listed companies will not be eligible.
- (j) Investment in shares of listed companies shall be made only where such company:
- | |
|--|
| (i) Has a minimum profitable operational record of immediate three preceding years; |
| (ii) Has paid average dividend of not less than fifteen percent to the shareholders during two out of three preceding consecutive years; |

(iii) The shareholders equity of such company shall not be negative.

9. The above conditions are either in line with or more stringent than the advice of the Finance Division.

Limit of Investment

10. Following limits are imposed for investment in non-government securities:

- (a) Total investment in single debt instruments including fixed income mutual funds of a company should not exceed 10% of size of the issue or upto Rs. 500 million whichever is less and total investment in debt instruments/ fixed income mutual Funds shall not exceed “10%” of the total size of fund managed by the FEB & GIF;
- (b) Total investment in the shares/capital market mutual funds/capital protected fund of a company not to exceed 5% of the paid up capital of that company/ total fund size of the fund, and total investment in shares/capital market mutual funds/capital protected fund of a company should not exceed “20%” of the total size of fund managed by the FEB & GIF.

Term Deposits/ Accounts with banks/ Development Financial Institutions (DFI)/ Non Banking Financial Institutions (NBFI)

11. Investment in any investment scheme/term deposits/maintaining accounts with banks/DFIs/NBFIs shall be made subject to the following conditions.

- (i) Selection of a bank, DFI/NBFI shall be made in a transparent manner by observing the selection criteria provided in these TORs.
- (ii) For selection of a bank, DFI/NBFI, the Investment Committee (IC) shall critically examine the profit & loss account and balance sheet for the last three years to assess the financial strength of a bank/DFI/NBFI. In this regard minimum standards in terms of ratio analysis, as specified/revised by the Investment Committee with the advice of a professional Investment Advisory Company will have to be ensured. The IC will critically examine this analysis prior to any decision and ensure compliance of these minimum standards. The said minimum standard for ratio analysis has been specified with the advice of the Investment Advisor as per **Appendix-D**.
- (iii) The IC will finalize a list of banks/DFIs/NBFIs based on above analysis of financials for any kind of investment. Thereafter banks

DFI/NBFI quarterly financials shall be examined regularly and the list will be accordingly updated.

- (iv) Minimum long term credit rating in case of bank shall be AA (double AA) and above for term deposit. In case the rating drops below "AA (double AA)", deposits from that bank will be shifted within two months to a bank(s) with atleast "AA (double AA)" rating. For maintaining an account the minimum credit rating shall be A+. In case the rating drops below "A+ (single A plus)", account from that bank will be shifted within two months to a bank with atleast "A+ (single A plus)" rating.
- (v) Minimum long term credit rating in case of DFI/NBFI shall be AAA (Triple A) for term deposit. In case the rating drops below "AAA (Triple A)", deposits from that DFI/NBFI will be shifted within two months to a bank(s)/DFI/NBFI with above prescribed minimum rating.
- (vi) Profit rate on TDRs or similar type instrument shall be higher or equivalent to the return available on similar tenure government securities.

Limit of Investment

12. Following limits are imposed for investment with banks/DFIs/NBFIs and maintaining of operational accounts:

- (i) Investment in a bank/DFI/NBFI shall not exceed "50%" of the total investment of the portfolio, and shall not be more than 10% of the total equity of the bank/DFI/NBFI.
- (ii) The above limit of 10% of the equity for bank will be further restricted as under:

| Long term credit rating | Investable limit |
|--------------------------------|-------------------------|
| A+ to AA- | 8% of paid up capital |
| AA to AA+ | 9% of paid up capital |
| AAA | 10% of paid up capital |

- (iii) The said limit of 10% in case of DFI/NBFI will be 8% of the paid up ecapital of the DFI/NBFI.
- (iv) The balance in an account with a bank may not exceed Rs. one billion. In case the exceeding balance is available for investment, decision will be made for investment in any scheme by the IC within 30 days.

13. **Limits of Investment to be observed based on the purchase value of Investment portfolio:** Following shall be the limits of investments in any permissible investment avenues:

- (i) No financial limit for investment in government securities.
- (ii) For investment in non-government securities;
 - (a) Investment in single debt instrument including fixed income mutual funds of a company should not exceed 10% of size of the issue or upto Rs. 500 million whichever is less and total investment in debt instruments/ fixed income mutual funds shall not exceed “10%” of the total size of fund managed by the FEB & GIF;
 - (b) Investment in a single share/capital market mutual fund/Capital Protected Mutual Fund of a company not to exceed 5% of the paid up capital of that company / total fund size of the fund or upto Rs. 500 million whichever is less, and total investments in shares/capital market mutual funds/Capital Protected Mutual Funds should not exceed “20%” of the total size of fund managed by the FEB & GIF.
- (iii) Investment in a bank/DFI/NBFI shall not exceed “50%” of the total investment of the portfolio, and shall not be more than 10% of the total equity of the bank/DFI/NBFI.
 - (a) The above limit of 10% of the equity for bank will be further restricted as under:

| Long term credit rating | Investable limit |
|--------------------------------|-------------------------|
| A+ to AA- | 8% of paid up capital |
| AA to AA+ | 9% of paid up capital |
| AAA | 10% of paid up capital |
 - (b) The said limit of 10% of the total equity in case of DFI/NBFI will be 8% of the paid up capital of the DFI/NBFI.
- (iv) The balance in an account may not exceed Rs. one billion. In case the exceeding balance is available for investment, decision will be made for investment in any scheme by the IC within 30 days.

14. **Provided that total investment made in the instruments mentioned in para 8 and 11 of these TORs shall not exceed sixty percent (60%) of the total portfolio managed by the FEB & GIF.**

Role of Investment Advisor

15. The Investment Committee may be assisted by a professional Investment Advisory Company (IAC)/Investment Advisor (IA) to be appointed observing

the PPRA Rules. Role of the IAC/IA will be advisory and decision making power shall remain with IC. With regard to appointment of IAC/IA, IC is authorized to approve all necessary steps like issuance of advertisement, evaluation of offers, and appointment of the IAC/IA etc. under the Rules.

Ancillary steps

16. IC is authorized to approve all necessary steps with regard to making of an investment, recovery of an investment like granting approval to restructurings etc, premature withdrawal of an investment and dis-investment of an investment held *etc.* if required under the market conditions duly recorded.

Leading role of IC

17. In case of un-availability of the IAC/IA, or to take emergent decision, the decision of the IC duly recorded shall be final wherever required under these Investment TORs.

Reporting to the Board of Trustees

18. Investments made/actions taken by the IC will be reported to the Board of Trustees, **FEB & GIF** for endorsement in subsequent meetings.

Superseding/overriding powers of Board of Trustees

19. The Board of Trustees, FEB & GIF shall have the power to restrict the IC of exercising any power under these TORs and can make any addition/deletion in these TORs of the IC/Investment Parameters.

Sd/-
RASHID SOHAIL,
Deputy Secretary (Admn-II).

Appendix-A

Processes to be observed for Purchase/Sale of Securities Directly from the Issuer OR from Secondary Market

General

If the investment opportunity warrants that the investment be made through directly purchasing from National Savings/State Bank of Pakistan or any other regulatory body issuing government backed/guaranteed paper, or a listed corporate entity/financial institution, the FEB & GIF is authorized to make investment directly from such issuers.

2. If the available investment opportunity is to be availed through secondary markets. Following procedure will be observed:

- (a) For making investment in permissible investment avenues from secondary market sealed bids/offers shall be invited from the banks/financial institutions/brokers etc. making the competition as wide as possible.
- (b) A designated bid opening committee shall open the sealed bids.
- (c) Minimum three offers/quotations shall be required for making any investment. In case less than three offers are received the process shall be cancelled and the bids shall be re-invited until three offers are received.
- (d) Safest possible mode like crossed cheque/demand draft etc. will be observed for payment of the investment.

Purchase/sale of shares/mutual funds

3. For sale/purchase of shares/close end mutual funds the following procedure will be observed:

- (a) The IC shall indicate the price limit for sale/purchase of shares/close end mutual funds and will advise the Managing Director to execute the sale/purchase above/below the minimum/maximum price indicated as the case may be.
- (b) The Managing Director will form an internal committee to decide daily price for the purchase/sale bid ensuring the price indicated by the IC.
- (c) The purchase/sale price could vary as the required number of shares/close end mutual funds could be purchased / sold in small numbers/lots.
- (d) In this regard the IC will also advise Managing Director to open account with any broker having a sound background, registered with SECP observing the PPRA Rules.
- (e) For trading purpose/earning capital gain, the Investment Advisor (IA) will indicate from time to time the price to make the sale of

shares/mutual funds in order to earn capital gain. The sale shall not be made below the price indicated by the IA. In case of unavailability of the Investment Advisor the IC shall decide the price at its own.

- (f) For open end mutual funds sale/purchase will be made through the respective Asset Management Company managing the fund.

Sale of government security/corporate bonds

4. In case of sale of a security like PIBs/Treasury Bills/Ijara Sukuk and TFCs/debt instrument of a corporate entity etc. following procedure must be adopted:

- (a) The sale of government securities like PIBs/Treasury Bills/Ijara Sukuk etc. would be made within the range of 15 bps of Pakistan Revaluation Rates (PKRV rate) of transaction day. For this purpose the PKRV rate provided by the Financial Market Association of Pakistan/similar body would apply.
- (b) The designated bid opening committee of the FEB & GIF would act as the Sale Committee.
- (c) Sealed bids for the sale of government securities would be invited from the banks/financial institutions etc. The bids received above the 15 bps range of the PKRV rate of that tenure would not be considered and the banks offering the lowest yield within the range would be negotiated for further improvement of the price.
- (d) The Managing Director would supervise the process to ensure transparency and would finally approve the sale.
- (e) For corporate bonds IC will indicate minimum price/yield. Sale will be made by inviting sealed bids to be opened by the designated sale committee.

Appendix-B



MINIMUM STANDARDS IN TERMS OF RATIO ANALYSIS
FOR CORPORATE BONDS

Payout History:

- The company must have paid dividends for the last three years

Liquidity:

- Current Ratio: Current Assets / Current Liabilities
 - Minimum of 1.00

Gearing:

- Interest Coverage: Earnings before Interest and Taxes (EBIT) / Interest Expense
 - Minimum of 1.50

Profitability:

- Gross Margins: Gross Profit / Total Revenue
 - Minimum of 10%
- Net Margins: Net Profit / Total Revenue
 - Minimum of 5%

Note:

Any attractive TFC identified for investment that may not fulfill any one of the prescribed ratios may be given an exception for investment subject to detailed analysis and the approval of the IC.

Appendix-C



MINIMUM STANDARDS IN TERMS OF RATIO ANALYSIS FOR SHARES

Payout History:

- The company must have paid dividends for the last three years

Liquidity:

- Current Ratio: Current Assets / Current Liabilities
 - Minimum of 1.00

Gearing:

- Interest Coverage: Earnings before Interest and Taxes (EBIT) / Interest Expense
 - Minimum of 1.50

Profitability:

- Gross Margins: Gross Profit / Total Revenue
 - Minimum of 10%
- Net Margins: Net Profit / Total Revenue
 - Minimum of 5%.

Note:

Any attractive share / scrip identified for investment that may not fulfill any one of the prescribed ratios may be given an exception for investment subject to detailed analysis and the approval of the IC.

Appendix-D



MINIMUM STANDARDS IN TERMS OF RATIO ANALYSIS FOR BANKS/DFIS/NBFIS

Following are the benchmark ratios for assessing banks:

| Metric | Range |
|--|---------|
| Infection Ratio (Non-Performing Loans /Advances) | <15% |
| Capital Adequacy Ratio (CAR)- SBP Requirement | >11.28% |
| Coverage (Provisions/NPLs) | >80% |

- *Infection Ratio: Non Performing Loans/Gross Advances*
- *Capital Adequacy Ratio: Capital/ Risk weighted assets*
- *Coverage: Provisions/NPLs*

Note:

For the purpose of infection ratio, a government owned bank / institution like NBP may be given waiver to this condition subject to the approval of the IC.