

1. Understanding investment into Pakistan

Foreign investors who are non-residents of Pakistan, which includes individuals who are Non Resident Pakistani Nationals (NRP) and Non Resident Foreign Nationals (NRF), can freely invest into Pakistan along with Foreign Institutional Investors (FIIs)

For investing into Pakistan, non-residents i.e. NRP, NRF and FIIs are required to get into a custodial relationship with banks that work in Pakistan offering Custodial Services.

Custody Service allows non-residents to remotely open an account with a bank that offers such services. This Custody Account consists of a set of two accounts; Securities Account and Cash Account. These accounts are linked together under the same title, as explained in figure 1, and has a special structure which allows the account holder to have full control over the securities and cash which is available in their name.

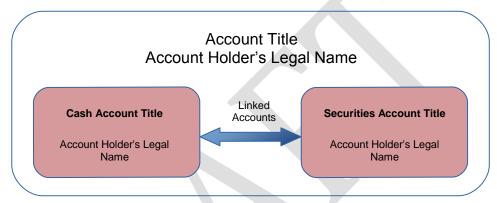


Figure 1: Account Structure Custodial Accounts.

The cash account, as explained in figure 1, is a Special Convertible Rupee Account that all authorized banks can open but without offering a custodial service. A simple Special Convertible Rupee Account will not be enough for the investors, as without a securities account, regulatory restrictions would further effect the lifecycle management of the investment and also cause issues in repatriation of the funds when disinvestment is made.

1.1. Market Information

In Pakistan there are two major kinds of investment made

a) Foreign Direct Investment (FDI)

This investment is done primarily in a single company by the non-resident investor, which can be an NRP, NRF or FII. Investment is registered by the authorized bank (the bank through which the investment came into Pakistan) and ongoing dividends and can be repatriated to the investor by the same authorized bank. The same bank through which the investment was initially registered with the State Bank of Pakistan also remits the disinvestment proceeds.

b) Foreign Portfolio Investment (FPI)

Investment into various instruments, which includes equities, government bonds, TFCs are done under this head, where the clients open an account with custodian banks as per the account structure described in figure 1. Under the FPI funds can freely be repatriated outside Pakistan. Funds brought into Pakistan cannot only be retained in USD but can also be converted into PKR as and when investment decision is made.

Pakistan Market has the following market regulatory structure

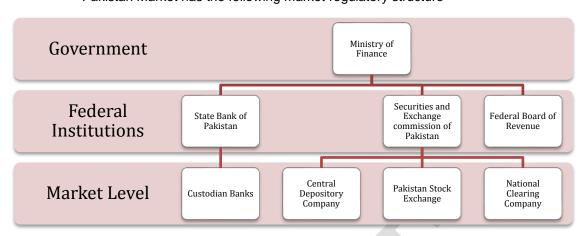


Figure 2: Market Regulatory Structure

1.2. Opening an Account

Investment into Pakistan will require the investor to open three kinds of accounts and also obtain a Unique Identification Number, issued by National Clearing Company of Pakistan. The number of account opening and its responsibility is summarized below

Kind of Account	Description	Responsibility of Opening
Custody Account	Pair of accounts opened with an authorized bank for investment into Pakistan	Account Holder
Depository Account	Account Opened with Central Depository Company and State Bank of Pakistan for holding the securities, government bonds in scrip less form	Custodian Bank
UIN Issuance	Unique Market Identifier used to identify the investor into the market	Custodian Bank
Brokerage Account	Trading account with the Brokers who are the holders of the TREC	Account Holder

1.2.1. Account Structures.

There are two possible kinds of accounts that can be opened in Pakistan under the investment mechanism of FPI

a) Segregated Accounts:

These accounts are in the name of the end beneficial owner of the investment and market will identify the NRP, NRF or FII as the sole owner of the account. These are uniquely suited for individual investors who require full control, transparency and visibility of the account.

b) Semi-Segregated Account:

This account structure allows the investor to open multiple custody accounts under the primary custody account (i.e. linked custody accounts) where the UIN for all these accounts will be same and the title of the UIN will become the beneficial owner of the securities. This account structure is specifically

beneficial when non-resident funds are investing into Pakistan and they wish to identify only the parent.

	Semi Segregated Account	Segregated Account
Account Structure with Custodian	Separate accounts are maintained for each underlying client under Client name. For example the title of the account would appear as 'Client A/c underlying client X'	The account to be in the underlying clients' name linked to the FII (Client). For example the title of the account would appear as 'underlying client X' without any prefix or suffix of Client.
Account structure at the Central Depository Company (CDC) level	Separate sub-account in Client name for each end client maintained at the CDC level under Custodian Bank's main participant account,	Individual CDC sub-accounts maintained for each client under Custodian Bank's main participant account.
Ownership	Client is deemed to be the registered and beneficial shareholder an entitled for all corporate entitlements as per local market practices.	Underlying client is registered and beneficial shareholder and all corporate entitlements are received in the individual underlying client's name.
Regulatory reporting	Disclosure requirements and ownership limits to apply on consolidated positions.	Disclosure requirements and ownership limits to apply to each individual registered shareholder with the company.

1.2.2. Documentary Requirements

- a) For Custody Account
 - I. Custodian Agreement
 - II. Power of Attorney (Notarized)
 - III. Constitutional Identity Documents from the country of origin (Notarized)
 - IV. Account Opening request (Either hard copy or a SWIFT Message)
 - V. FATCA Declarations
 - VI. Zakat Declarations

b) For Brokerage Account

- I. Broker Agreement
- II. Brokerage Account Opening form.
- III. Zakat Declarations
- Central Depository Account and UIN Issuance via NCCPL will be done by the Custodian Bank based on the documents that are provided for the custody account opening

2. Bringing the money into Pakistan

The funds coming into Pakistan in the newly opened custody account will be via remittance. The investor will send funds via international remittance in USD,

EUR, GBP or any convertible currency, which can easily be converted in Pakistan.

2.1. Investing – Who to contact for information

Investors can work with institutions in Pakistan that provide guidance on the overall rules, regulations, market update, tax information update and assistance on understanding market structures as and when they change. Investors can also appoint investment advisor who can help them make investment decisions for the funds and Independent Advisory Firms are available in the market that provides such services to the investors.

For understanding investments into Pakistan and get guidance into the investment structures, rules, regulations, market's regulatory structures with understanding the rules and regulations of State Bank of Pakistan, SECP, Tax applicability in investments and other market related charges that will affect the overall lifecycle of the investment, investors can reach to PSX via email at sani.khan@psx.com.pk or investors can visit the Exchange's website at www.psx.com.pk.

2.2. How to execute a transaction

Executing a transaction on the Pakistan Stock Exchange will require a broker with whom the investor has opened a brokerage account the transaction execution in the market is explained in figure 3a and 3b

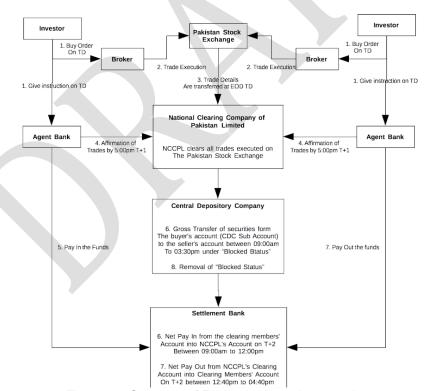


Figure 3a: Structure of Exchange based transaction

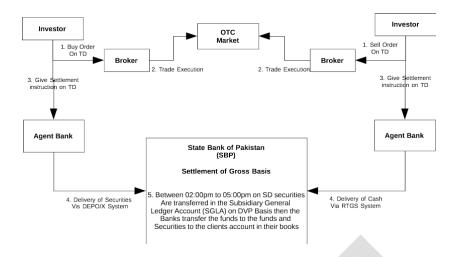


Figure 3b: Structure of Over the Counter (OTC) transactions

2.2.1. Market Charges and its Categories

Charges that are incurred by the investor for investment into Pakistan are broadly categorized into following three categories:

a) Custodian Charges

These charges are levied by the custodian bank to settle and safe keep the securities on behalf of the investors. These include transaction charges, which are roughly around 20 USD to 50 USD per transaction, and safekeeping charges, which are approximately 10 basis point (0.1%) of the value of the securities that are held with the custodian bank.

b) Depository Charges.

Charges that are imposed by the Central Depository Company of Pakistan, for maintaining the securities in the depository are charged to the custodian which are mostly passed through to the end investor as out of pocket expenses depository charges include.

I. Yearly account charge PKR 250

II. Transaction Charges 0.004% of the Market Value

III. Depository Fees 0.01125% per annum (calculated daily)

c) Brokerage Charges

Primary Charge is the brokerage commission that this mutually agreed between the investor and the Broker. These charges is done on transactional basis and not on the value of the securities purchased. On the OTC market where Government Bonds are purchased and sold there are no transaction charges or brokerage commission levied. On the brokerage commission Federal Excise Duty (FED) @ 16% will be charged and SECP Fees of 0.0065%.

2.2.2. Taxes and Duties

All market services that are charged to the client will be levied with 14% of Services Tax in addition to the various taxes.

a) Capital Gains Tax

On Mutual Funds Schemes and Collective Investment Schemes following tax rates will be applied

S. No	Profit on Debt	Rate of Tax
1	0 to 12 months	12.5%
2	12 to 24 months	10.0%
3	Over 24 months	0

Capital Gains Tax on disposable securities for the tax year 2016 are as follows

S. No	Profit on Debt	2016
1	Less than 12 months	15.0%
2	12 months to less than 24 months	12.5%
3	24 months but less than 48 months	7.5%
4	More than 48 Months	0.0%

Profit received from debt instruments

S. No	Profit on Debt	Rate of tax
1	Where profit on debt does not exceed Rs 25,000,000	10%
2	Where profit on debt exceeds Rs 25,000,000 but does not exceed Rs 50,000,000	2,500,000 + 12.5% of the amount exceeding Rs 25,000,000
3	Where profit on debt exceeds Rs 50,000,000	Rs 5,625,000 + 15% of the amount exceeding Rs 50,000,000.

b) Capital Value Tax

Is payable @ 0.01% on the buy value of the securities. This tax is collected by the stock exchange through the broker therefore this will be part of the broker's invoice.

c) Stamp Duty

- I. Stamp duty on physical transfer of shares is payable at the rate of 1.5% of the face value of shares.
- II. Stamp duty on electronic transfer of shares is payable at the rate of 0.10% of the face value of shares. Presently, stamp duty on electronic transfer of shares is not being collected.
- III. Stamp Duty on conversion from Physical to Scrip less PKR 0.01 per share.
- IV. Stamp Duty on conversion from Scrip less to Physical PKR 0.10.

2.3. Keeping an eye on your holdings

Custodian banks will provide daily, weekly, monthly, semi-annually and annually the statements of your cash and securities holding. Custodians can also give you access to online platforms from where you can provide settlement instructions to the custodians when you have booked deals with the brokers.

One more key element for keeping track on is the capital gains tax payments in the market. CGT is calculated by National Clearing Company of Pakistan (NCCPL) based on the UIN that has been issued to the investor. These calculations are done on FIFO method and every month NCCPL issues the tax payment obligation that is outstanding on each UIN to the respective custodian and the custodians forwards these to the investors for payment up to a respective deadline. Failure to make payments can lead to penalties imposed by the NCCPL on the investor via the custodians.

2.4. Taking your money out of Pakistan

Once the investor has sold the securities under the FPI investment category they can freely take the funds out of Pakistan. The instruction for the remittance can be given to the custodian bank and based on the market rate they are able to freely repatriate the funds out of Pakistan. Custodian may ask the investor to clear its dues before the remittance can be made as per the agreement between the custodian and the investor.

There are options to hedge the currency risk up to a year from the date of the investment should the investor choose to do so. This facility of hedging is generally done with the custodian but the investor has the option to do it with other authorized bank as well.

3. Annexures

3.1. Contacts of Custodian Banks

To be populated with the list of custodian banks in Pakistan

3.2. Contact of brokerage firms

To be populated with the list of brokers who deal with foreign investors in Pakistan

3.3. Contact Details of Securities and Exchange Commission of Pakistan

Address: National Insurance Corporation Building, Jinnah Avenue, Islamabad-

44000, Pakistan : +92-51-920 7091-

Contact No: +92-51-920 7091-4 Website: www.secp.gov.pk Fax: +92-51-920 4915

Email: international.affairs@secp.gov.pk

3.4. Contact Details of Pakistan Stock Exchange

Address: Stock Exchange Building, Stock Exchange Road, Karachi 74000,

Pakistan

Contact No: +92-21-111 001 122 Website: www.psx.com.pk Fax: +92-21-3241 0825 +92-21-3241 5136

Email: info@psx.com.pk

3.5. Contact Details of Central Depository Company of Pakistan

To be populated with the contact details of Central Depository Company of Pakistan

3.6. Contact Details of State Bank of Pakistan

Address: State Bank of Pakistan Central Directorate I.I. Chundrigar Road

Karachi, Pakistan

Contact No: +92-21-111 727 111 Website: www.sbp.org.pk Fax: +92-21-9212 433 - 36 Email: info@sbp.org.pk

4. Frequently Asked Questions

4.1. How can an investor source informational update in Pakistan across various entities whose regulations effect the investment environment?

There are special companies in Pakistan that provide consolidated services of guidance into the investment structures, rules, regulations, market's regulatory structures that can provide investors with overall understanding of the market regulations and account structures in Pakistan.

4.2. Are there any minimum thresholds for investment?

There are no thresholds defined by PSX, SBP or CDC however, there are various minimum investment account requirement maintained by the broker and custodian banks for opening accounts with them

4.3. Is there any restriction imposed on investors from repatriating funds brought in via SCRA account?

There are no restrictions on repatriating funds via the SCRA account as long as funds were received via remittance or where resultant of sales proceeds of the securities that were initially brought in via SCRA Account (referred to as FPI) or with the dividends or interest earned via investment.

4.4. Can SCRA account be funded via over the counter bank deposit?

SCRA cannot be funded via over the counter bank deposit, these can be funded via remittances, dividends, interest (for fixed income instruments) or sale proceeds of the securities (purchased via funds from SCRA).

4.5. Can SCRA accounts be funded through any other source?

SCRA Accounts can also be funded through transfers from foreign currency accounts (FCY) maintained by non-residents in Pakistan.

4.6. Can non-residents trade in government bonds and corporate debt instruments listed on the stock exchange?

Foreign investors can freely trade in these instruments through SCRA.

4.7. Can Free of Payment transfer of shares take place between non-residents?

Transfers of shares can take place between non-residents who are maintaining SCRA Accounts free of payment without approval of SBP.

4.8. Can non-resident investors hedge their currency risk for investments via futures and forward contracts?

Hedging facility is available in Pakistan for non-resident investors as a special consideration for investment purposes only. This has been allowed by State Bank of Pakistan for up to a year.