



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
SPECIALIZED COMPANIES DIVISION
NON BANKING FINANCE COMPANIES DEPARTMENT

No.NBFCD/MF/CIRCULAR/ ⁴⁹⁹ /2009

May 4, 2009

Circular No. 13 of 2009

**PROVISIONING POLICY FOR NON PERFORMING EXPOSURE OF
COLLECTIVE INVESTMENT SCHEMES**

It has been observed by this office that certain Asset Management Companies (AMCs) are making provision against debt securities over and above the minimum provisioning requirements prescribed by the Commission under Circular 1 of 2009 without having in place a Provisioning Policy duly approved by their Board of Directors ("Board"). Apart from this, some AMCs are also making provision against other exposure such as money market placements, COIs, LOP, etc. where provisioning requirement has neither been prescribed by the Commission nor any Provisioning Policy duly approved by the Board of the AMC is in place.

In order to ensure fair determination of Net Asset Value (NAV) backed by Provisioning Policy duly approved by the Board with proper rationale and adequate disclosures to the unit holders and prospective investors, the Commission in exercise of the powers conferred under section 282B(3) of the Companies Ordinance, 1984 read with Regulation 66 (l) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, hereby directs all AMCs to comply with the following:

- 1) AMCs deciding to make any provision against exposure such as COIs, CODs, COMs, LOP, money-market placements, etc. or any additional provision against debt securities i.e. over and above the minimum provisioning requirements as prescribed under Circular No. 1 of 2009 shall formulate a comprehensive Provisioning Policy duly approved by their Board of Directors prior to making of such provisions;
- 2) The Provisioning Policy approved by the Board shall *inter-alia* contain:
 1. Eligibility criteria for debt security and other exposure for making provision;
 2. Criteria for classification as non-performing exposure;
 3. Provisioning requirements including the minimum time frame for maintaining the applied provisions;
 4. Criteria for suspension of mark up;
 5. Criteria for reversals of provisioning; and
 6. Requirements for disclosure of the Provisioning Policy to unit holders and prospective investors.

- 3) All AMC's which have already made additional provisions against debt securities i.e. over and above the minimum provisioning requirements as prescribed under Circular No. 1 of 2009 or have provided against any other exposure shall immediately formulate the Provisioning Policy with the approval of the Board of Directors but not later than 7 days of the date of this circular.
- 4) The Provisioning Policy as approved by the Board shall be immediately disclosed / disseminated by the AMC to the existing unit holders, prospective investors, trustee of the scheme and the Commission. The same shall also be disseminated by the AMC on its website. In addition, requisite amendments in the constitutive documents of the scheme shall be incorporated at the earliest. The provisioning made in light of the Provisioning Policy shall be disclosed by the AMC in the quarterly, half yearly and annual accounts of the scheme.

This Circular shall come into force with immediate effect. In case of any clarification all AMC's and MUFAP are advised to approach the Commission.

This Circular is issued with the approval of the Competent Authority.


Asif Jalal Bhatti
Director (NBFCF) 4/5/2009

Distribution

- I. Chief Executives of all Asset Management Companies
- II. Mutual Fund Association of Pakistan
- III. Trustees of Mutual Funds