

**PART II**  
**Statutory Notification (S. R. O)**  
**GOVERNMENT OF PAKISTAN**  
**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**  
**NOTIFICATION**

Islamabad, 25<sup>th</sup> November, 2015

**S.R.O. //6<sup>e</sup> (I)/2015.-** In exercise of powers conferred by sub-section (2) of section 282B of the Companies Ordinance, 1984 (XLVII of 1984), the Securities and Exchange Commission of Pakistan hereby makes the following further amendments in Non-Banking Finance Companies and Notified Entities Regulations, 2008, namely,-

In the aforesaid Regulations, -

- (1) For the heading “CHAPTER I General” appearing at the beginning the heading “PART I Title and definitions” shall be substituted;
- (2) in regulation (2) sub-regulations (1),-
  - (a) clause (ii) shall be omitted;
  - (b) for clause (iii) the following shall be substituted, namely:-

“(iii) “Borrower” means a person who has obtained Finance from an NBFC”;
  - (c) clause (iv) shall be omitted;
  - (d) for clause (v) the following shall be substituted, namely:-

“(v) Collective Investment Scheme” means any arrangement whose sole purpose is the collective investment of funds in a portfolio of securities, or other financial assets for profits, income or other returns, and where the participants, who have pooled in the funds, do not have any day to day control over the management of the scheme, whether or not they have the right to be consulted or to give direction in respect of such management:

Provided that the following shall not be considered as a Collective Investment Scheme for the purpose of these regulations:-

- (a) employee welfare trusts or gratuity trusts or employees provident funds or employees’ pension funds setup for the benefit of employees by companies; and
- (b) any such pool of funds which is separately regulated by the

Commission or which is already established under any specific law;”;

(e) for clause (vii) the following shall be substituted, namely:-

“(vii) closed end scheme” means a collective investment scheme having a specified period of maturity which does not continuously offer its certificates for sale to investors and entitles the holder of certificates, to receive, proportionate share of the net assets of the closed end scheme:

Provided that existing closed end scheme shall be classified as closed end scheme until revoked or converted into open end scheme for the purpose of these regulations;”;

(f) for clause (ix), the following shall be substituted, namely:-

“(ix) “Consumer Financing” means the financing allowed to individuals for meeting their personal, family or household needs.”;

(g) for clause (xi), the following shall be substituted, namely:-

“(xi) Contingent Liabilities” mean, -

(a) a possible obligation that arises from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

(b) a present obligation that arises from past events but is not recognized on the books of the NBFC and Notified Entity because:

(I) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(II) the amount of the obligation cannot be measured with sufficient reliability and includes letters of credit, letters of guarantee, bid bonds or performance bonds, advance payment guarantees and Underwriting Commitments;”;

(h) after clause (xi) substituted as aforesaid, the following new clauses shall be inserted, namely:-

“(xia) “deposit taking NBFC” means a lending NBFC with a valid permission to raise Deposits or have outstanding Deposits on its books;

(xib) “discount house” means an NBFC licensed by the Commission to provide discounting services.”;

(i) for clause (xii) the following shall be substituted, namely:-

“(xii) “Discretionary Portfolio” means a portfolio of securities and deposit with financial institution managed by an Investment Advisor under an agreement entered into with a client on a duly notarized stamp paper of applicable value and whereby investment decisions are made and executed by the Investment Advisor on behalf of its client;”;

(j) after clause (xii) substituted as aforesaid, the following new clause shall be inserted, namely:-

“xiia “Distributor” means a person who performs distribution function for Collective Investment Schemes;”;

(k) in clause (xiii) for the word “five” the word “three” shall be substituted;

(l) for clause (xiv) the following shall be substituted, namely:-

“(xiv) “Equity of the Borrower” includes paid-up capital, general reserves, balance in share premium account, reserve for issue of bonus shares and retained earnings or accumulated losses, revaluation reserves on account of fixed assets and Subordinated Loans:

**Explanation:** (i) Revaluation reserves will remain part of the equity for first three years only, from the date of asset revaluation, during which time the borrower will strengthen its equity base to enable it to avail facilities without the benefit of revaluation reserves. However, if a borrower gets revaluation during the three years period, the borrower will be allowed the benefit from fresh revaluation, to the extent of increase in revaluation reserves, but restricting the benefit of such incremental value to 3 years only. Similarly, if after 3 years, the borrower again gets revaluation of the assets with resultant addition in their value, the benefit of such revaluation may also be allowed for the next 3 years, again to the extent of increase in revaluation reserves.

(ii) For a loan to be classified as subordinated loan, the following conditions shall be met:

(a) Subordinated loan shall be un-secured and sub-ordinate to NBFC indebtedness; and

(b) Subordinated loan shall be documented by a formal subordination agreement between the provider of the loan and the Borrower that the loan is subordinate to NBFC claim;

(m) for clause (xv), the following shall be substituted, namely:-

“(xv) “Exposure” includes Finance, subscription to or investment in securities, debt instruments, units or certificates or shares of a Notified Entity , placements, deposits with Financial Institutions, derivatives, Margin

Trading System (MTS) or any mechanism that replaces it, but does not include:

- (a) obligations under letters of credit and letters of guarantee to the extent of cash margin held by an NBFC;
- (b) Finance provided to financial institutions through REPO transactions with underlying statutory liquidity requirement eligible securities;
- (c) deposits in current and savings accounts other than term deposits;”;

(n) for clause (xvi), the following shall be substituted, namely:-

“(xvi) “finance” means provision of,-

- (a) any accommodation or facility on the basis of participation in profit and loss, musharika or modaraba basis, mark-up or mark-down in price, hire-purchase, lease, rent-sharing, bills of exchange, promissory notes or other instruments with or without buy-back arrangement by a seller, participation term certificate, musharika or modaraba certificate, term finance certificate;
- (b) guarantees, indemnities, letters of credit or any other financial engagement, issued or undertaken on behalf of a person, with a corresponding obligation of that person;
- (c) a loan, advance, discounting services to any person;
- (d) micro financing including any form of Finance such as leases, advances, consumer loans, housing finance;
- (e) a financial facility or accommodation provided on the basis of Islamic mode of financing; and
- (f) any other form of financial facility provided to a person;”;

(o) for clause (xxvi) the following shall be substituted, namely:-

“(xxvi) Liquid Assets” means the assets which are readily convertible into cash and includes encashment or realizable value of gold, Government Securities, bank deposits, shares of listed companies which are actively traded on the stock exchange, certificates or shares of a Closed End Fund, Deposits issued by DFIs or NBFCs rated at least ‘A-’ by a credit rating agency registered with the Commission, Certificates of Musharika issued by Modarabas rated at least ‘A’ by a credit rating agency registered with the Commission, listed TFCs and Sukuks rated at least ‘A’ by a credit rating agency registered with the Commission and which are actively traded in the market, commercial papers rated at least ‘A’ by a credit rating agency registered with the Commission, National Saving Scheme

securities and units of Open End Scheme for which a duly licensed Asset Management Company quotes daily offer and redemption price;”;

- (p) for clause (xxvii), the following shall be substituted, namely:-  
“(xxvii) “Margin Financing” means Margin Financing as defined in sub-rule (k) of rule 2 of Securities (Leveraged Markets and Pledging) Rules, 2011;”;
- (q) after clause (xxvii) substituted as aforesaid, the following new clauses shall be inserted, namely:-  
“(xxviiia) “Micro Financing” means Finance provided to a poor person or microenterprise;  
(xxviiib) “Microenterprises” means projects or businesses in trading or manufacturing or services or agriculture that lead to livelihood improvement and income generation. These projects or businesses are undertaken by micro entrepreneurs who are either self-employed or employ few individuals not exceeding 10 (excluding seasonal labour);
- (r) for clause (xxviii) the following new clause shall be substituted, namely:-  
“(xxviii) “Net Assets”, in relation to a collective investment scheme, means the excess of assets over liabilities of the collective investment scheme, such excess being computed in the manner provided in these regulation; after clause (xxviii) substituted as aforesaid the following new clause shall be inserted, namely:-  
“(xxviiia) non-deposit taking NBFC” means a Lending NBFC which does not have a permission to raise Deposits;”;
- (s) for clause (xxix) the following shall be substituted, namely:-  
“(xxix) “Non-Discretionary Portfolio” means a portfolio of securities and deposit with financial institution managed by an Investment Advisor under an agreement entered into with the client on a duly notarised stamp paper of applicable value whereby investment decisions are executed by the Investment Advisor on written instructions of the client;”;
- (t) for clause (xxxii) the following shall be substituted, namely:-  
“(xxxii) “Open End Scheme” means a collective Investment Scheme which offers units for sale based on net asset value on continuous basis without specifying any duration for redemption and which entitles the holder of such units on demand to receive his proportionate share of the net assets of the scheme less any applicable charges on redemption or revocation;”
- (u) in clause (xxxiv) after the word “receivables” appearing at the end, the word “etc.” shall be inserted;

- (v) after clause (xxxiv) amended as aforesaid, the following new clause shall be added, namely:-
- “(xxxiva) “poor person” means an individual who has meager means of subsistence and whose total business income excluding expenses during a year is less than or equal to Rs 600,000/- or such other minimum limit as may be prescribed from time to time;”;
- (w) clause (xli) shall be omitted;
- (x) clause (xlii) shall be omitted;
- (y) after clause (xliv) the following new clause shall be inserted, namely:-
- “(xliva) “Total Expense Ratio” means the ratio of the sum of all fees, expenses, taxes or government levies charged to the Collective Investment scheme to average daily net assets value of that Collective Investment Scheme;”;  
and
- (z) after clause (xlvii) the following new clause shall be inserted, namely:-
- “(xlviii) “Unsecured” means the Exposure without any security or collateral.”;
- (3) in sub-regulation (2), for the word “and” appearing for the second time, the expression “ , Securities Act, 2015 and” shall be substituted;
- (4) For the heading “CHAPTER II Part-I” the heading “PART II General” shall be substituted;
- (5) for regulation (3) the following shall be substituted, namely:-
- “3. Application of this part.-** The provisions of this part shall apply to the following form of business,-
- (i) Asset Management Services
  - (ii) Leasing;
  - (iii) Discounting Services;
  - (iv) Housing Finance Services;
  - (v) Investment Advisory Services; and
  - (vi) Investment Finance Services;
- (6) For regulation 4 the following shall be substituted, namely:-
- “An NBFC licensed by the Commission to undertake form of business mentioned in Regulation 3 shall, at all the times, meet the minimum equity requirement or any other requirement in lieu of minimum equity requirement in respect of each form of business as provided in Schedule I.

- (7) Regulation 5 and 6 shall be omitted;
- (8) for regulation 9, the following shall be substituted, namely:-

**“9. Prevention of NBFCs involvement in money laundering, terrorist financing and other illegal trades.–** (1) All NBFCs shall ensure prevention of money laundering and other illegal trades and abide by such laws, directives and circulars as may be issued by the Federal Government or the Commission to safeguard the NBFC against involvement in money laundering activities and other illegal trades.

(2) Notwithstanding the generality of Regulation 9(1) an NBFC shall comply with the following conditions, -

- (a) it shall determine the true identity of the prospective customer or investor before extending its services and care shall be taken to establish beneficial ownership of all accounts and those using safe custody.;

For the purpose of this regulation, customer means a person who has placed a Deposit with the Lending NBFC or has invested in the units or certificates of a Notified Entity or has obtained Finance from a Lending NBFC or has any business relationship with the NBFC or Notified Entity.

- (b) it shall accept money from a customer only after ensuring that an account has been opened in the name of the customer using the account opening form developed by the respective industry associations in consultation with the Commission;
- (c) it shall establish effective procedures for obtaining identification from new customers and devise a policy to ensure that business transactions are not conducted with persons who fail to provide evidence of their identity;
- (d) it shall conduct its business in conformity with the Rules and these Regulations and shall not offer services or provide any assistance in transactions which, in the opinion of the NBFC, are associated with illegal activities or relating to terrorist financing from legitimate or illegal means;
- (e) it shall establish effective procedures for monitoring of customer accounts on a regular basis, checking identities and bonafide of remitters and beneficiaries of transactions and retain record of transactions; and
- (f) it shall not make payment or receive amounts in cash exceeding Rs.50,000/-.

Provided that the above limit shall not apply to cash payments made for repayment of Finance by an existing borrower.

(3) All transactions into or from the account maintained with the NBFC which are not usual transactions shall be thoroughly scrutinized and properly investigated by the NBFC.”;

- (9) in regulation 10,-
- (a) in the heading,-
- (i) the word “prior” shall be omitted; and
- (ii) after the word “appointment” the words “ or re-appointment” shall be inserted;
- (b) after the word “appointment” appearing for the second time the words “or re-appointment” shall be inserted; and
- (c) for clauses (a) and (b) the following new clauses shall be substituted, namely:-
- “(a) in case of election of directors in the Annual or Extraordinary General Meeting, the NBFC, 10 days before the date of the meeting in which election of directors is to be held, shall submit an application for the individuals seeking to contest the elections whether they are retiring directors or otherwise;
- (b) in case of occurrence of any casual vacancy or reappointment of chief executive, the NBFC must submit an application within 10 days of the occurrence of any casual vacancy or reappointment, as the case may be;
- (ba) in case the Board of Directors of an NBFC decides to remove its chief executive before the expiration of his term of office or the chief executive decides to tender his resignation before the completion of his term of office or replacement of Chief Executive on completion of his term, the NBFC shall inform the Commission at least one month before the decision along with reasons for the same:
- Provided that the NBFC shall, within this one month period, submit an application complete in all respects, for obtaining approval for appointment of the new chief executive;”
- (10) in regulation 11, for the words and roman numbers “are prescribed in Schedule-II” the words and roman numbers “as specified in Schedule – II are non-refundable” shall be substituted;
- (11) for the heading “PART-II Leasing, Investment Finance Services and Housing Finance Services” appearing after regulation 11, amended as aforesaid, the heading “PART III Lending NBFCs” shall be substituted;
- (12) in regulation 12, after the word and comma “Companies” appearing for the second time, the words and comma “, Discount Houses, Non-Bank Micro Finance Companies” shall be inserted;

(13) regulation 13 shall be omitted;

(14) for regulation 14, the following shall be substituted, namely:-

**“14. Permission to issue Certificate of Deposit by a Lending NBFC. -** (1) Lending NBFCs, excluding those NBFCs which already have valid permission to raise deposit, may apply to the Commission for permission to raise Deposit, after complying with the following conditions, namely:-

- (a) the NBFC is undertaking activities as a Lending NBFC for a minimum period of three years and has been, as per the audited accounts, making profits for last two years;
- (b) the NBFC meets the minimum equity requirement as specified in these Regulations;
- (c) the NBFC complies with the Capital Adequacy Ratio as specified in these Regulations;
- (d) the NBFC, or any other NBFC in which its sponsors had a stake of more than 10%, has not defaulted on, or obtained write off on Finance availed from any financial institution or investor in any of its redeemable capital instruments within the last five years;
- (e) the NBFC, or any other NBFC in which its sponsors had a stake of more than 10%, has not defaulted on any obligation towards any of its depositors, which term shall include investors in any of its deposit raising arrangements;
- (f) the NBFC is listed on a stock exchange:

Provided that the requirement to list the NBFC on a stock exchange shall not apply to an NBFC which is 100% owned directly by the Federal or Provincial Governments;

- (g) the operations of the NBFC and the conduct of its directors with respect to the NBFC has been in accordance with law; and
- (h) the NBFC has been assigned a credit rating of minimum A- from a credit rating agency registered with the Commission

Provided that an NBFC which has been assigned a credit rating of minimum BBB from a credit rating agency registered with the Commission may apply to the Commission to raise deposits from sources other than individuals, sole proprietors, provident/gratuity funds, trusts, charitable institutions and section 42 companies.

(2) An NBFC which is in compliance with the provisions of sub-regulation (1) shall make an application to the Commission along with the evidence of compliance with sub-regulation (1).

(3) If the Commission is satisfied that the NBFC fulfills the conditions prescribed in sub-regulation (1), it may give permission to such NBFC to raise Deposits.

(4) A Deposit taking NBFC which has a valid permission to raise Deposit shall comply with the following conditions, namely:-

- (a) the NBFC shall raise Deposits by way of issuing "Certificate of Deposit" only;
- (b) the NBFC shall at all times maintain a minimum credit rating and the same shall be updated at least once every year;
- (c) the NBFC shall publish its credit rating in financial statements, website, advertisements and brochures published in relation to the promotion of its business;
- (d) the Deposit shall be registered in the name of the person to whom it is issued;
- (e) the maturity period of the Deposit shall not be less than three months:

Provided that the Certificate of Deposit shall only be redeemable after 45 days of its issuance on the terms and conditions laid out in the deposits agreement or product disclosure statement;

- (f) the deposits raised by NBFCs shall be capped in the following manner,-

Credit Rating	Total Deposits from all sources including deposits from individuals, sole proprietors, provident/gratuity funds, trusts, charitable institutions and section 42 companies.	Deposits from individuals, sole proprietors, provident/gratuity funds, trusts, charitable institutions and section 42 companies.
AA- and above	5 times of Equity	4 times of Equity
A- to A+	3 times of Equity	2 times of Equity
BBB to BBB+	2 times of Equity	-Nil-

- (g) at least 15 per cent of the outstanding funds raised through Deposits by the NBFC, excluding the Deposit held by financial institutions, shall be invested in Government Securities, or instruments or investments as notified by the Commission. Such investments or instruments shall be valued at cost or market value whichever is lower and any shortfall in the value of such investments or instruments shall be immediately made-up:

Provided that these instruments or investments are for the benefit of the depositors only and such instruments shall be kept un-encumbered and disclosed separately in the financial statements of the NBFC:

Provided further that this condition shall also be applicable on a Deposit taking NBFC whose permission to raise Deposits has been suspended or cancelled till the time all the Deposits have been repaid.

- (h) the NBFC shall report to the Commission, on a monthly basis, the total amount of its outstanding deposits and the securities held there against:

Provided that this condition shall also be applicable on a Deposit taking NBFC whose permission to raise Deposits has been suspended or cancelled till the time all the Deposits have been repaid, and the Commission has authorized the removal of the suspension/cancellation;

- (i) the NBFC shall provide a return on Deposits which may be different for different volumes and maturities of deposits provided that uniformity is observed within each category:

Provided that deposits of listed companies, financial institutions, recognized charitable trusts and statutory bodies shall be exempted from compliance with the provision of sub-regulation (4) (i); and

- (j) the NBFC shall, prior to the launch and any subsequent amendment, provide information to the Commission on each deposit taking scheme along with product disclosure statement and deposit taking instrument.

Provided that the NBFC shall place all the deposit taking schemes along with specimen instruments on its website for information of the general public. It shall be the responsibility of the NBFC to regularly update its website in this regard.”;

- (15) for regulation 15, the following new regulation shall be substituted, namely:-

**“15. Advertisement by Deposit taking NBFCs.-** (1) The NBFCs shall seek prior approval of the Commission for any invitation to attract Deposits either through advertisement by print, electronic or social media outlets or any other form or channel to the public or through private placement:

Provided that the application for seeking approval of the Commission shall deemed to be approved, if no reply is received from the Commission within five working days from the date of receipt of complete application by the Commission.

(2) All advertisements for inviting persons to participate in a NBFC’s Deposit taking scheme shall at the minimum contain the following information:

- (a) credit rating of the NBFC, the name of the rating agency, the date on which the credit rating was issued;
- (b) minimum and maximum tenor of the Deposit; and
- (c) expected profit rate to be paid on the deposits.

(3) All advertisements for inviting a person to invest in a Deposit taking scheme of an NBFC must contain the following disclaimer:

“The Certificate of Deposits of “Non-Banking Finance Companies are subject to various risks including credit risk and liquidity risk. The prospective customers are advised to conduct their own due diligence prior to investing in Certificate of Deposits of a Non-Banking Finance Company”.;

(16) after regulation 15 substituted as aforesaid, the following new regulations shall be inserted, namely:-

**“15A. Suspension and cancellation of permission to issue Certificate of Deposits. -**

(1) The permission to raise Deposit of a Deposit taking NBFC shall automatically stand suspended with immediate effect, if the NBFC becomes non-compliant with any or all of the following conditions:

- (a) its equity falls below the minimum equity required as specified in these Regulations;
- (b) its Capital Adequacy Ratio is less than the minimum ratio as prescribed in these Regulations; and
- (c) its credit rating drops below the minimum rating stipulated in these Regulations.

Explanation: for the purposes of this regulation the expression “suspension of permission to raise Deposit” means that Deposit taking NBFC shall not raise any fresh Deposits provided that the Deposit taking NBFC may rollover existing Deposits only on the written request of the depositor.

(2) If the Deposit taking NBFC is able to remove the non-compliance (s) within a period of six months, the Deposit taking NBFC shall submit an application, supported by credible documentary evidence, requesting for removal of the suspension and such Deposit taking NBFC shall resume accepting new Deposits only after the Commission permits it to do so.

(3) If the Deposit taking NBFC remains non-compliant with any or all of the conditions mentioned in sub-regulation (1) for a period of more than six months, the permission to issue Deposits shall stand automatically cancelled with immediate effect and the Deposit taking NBFC shall immediately cease to roll-over existing Deposits and the existing Deposits shall be repaid as and when they become due:

Provided that the existing Lending NBFCs having a valid permission to raise Deposits which are non-compliant with the requirements as given in clauses (b), (e) and (f) of sub-regulation 4 of regulation 14 and clauses (a), (b) and (c) of sub-regulation (1) of this regulation shall comply with these requirements within one year of the coming into force of these regulations: Provided that during the interim period of one year, the total deposits of such NBFCs shall be capped at the existing level i.e. the outstanding deposits at the date of coming into force of these regulations.

**15B. Limit on aggregate liabilities of an NBFC.-** (1) Aggregate liabilities, excluding contingent liabilities and security deposits, of a non-deposit taking NBFC shall not exceed ten times of its equity.

(2) Contingent Liabilities of an NBFC shall not exceed the limits prescribed below:

Credit Rating	Maximum Limit
AA- and above	2 times of equity
A- to A+	1.5 times of equity
BBB+	0.5 times of equity

Provided that the following shall not constitute contingent liabilities for the purpose of this regulation,-

- (a) non-fund based Finance to the extent covered by liquid assets;
  - (b) non-fund based finance where the payment is guaranteed by the Federal Government, Provincial Government, Financial Institution rated AA by a credit rating agency registered with the Commission; and
  - (c) claims other than those related to provision of Finance (fund based or non-fund based) to the NBFCs' constituents, where the probability of conversion of these claims into liabilities is remote in the view of the Auditor.”;
- (17) in regulation 16, for the word “An” appearing at the beginning, the words “A deposit taking lending” shall be substituted;
- (18) for regulation 17 the following shall be substituted, namely:-

**“17. Maximum Exposure of NBFC to a single person, or Group.-** (1) The total outstanding Exposure (fund based and non-fund based) by an NBFC to a person shall not at any time exceed twenty per cent (20) of the equity of an NBFC (as disclosed in the latest financial statements):

Provided that the maximum outstanding fund based Exposure does not exceed fifteen per cent (15) of the equity of an NBFC.

(2) The total outstanding Exposure (fund based and non-fund based) by an NBFC to any group shall not exceed twenty five per cent (25) of the equity of an NBFC (as disclosed in the latest financial statements):

Provided that the maximum outstanding fund-based Exposure does not exceed twenty per cent (20) of the equity of an NBFC:

Provided further that the limits prescribed in sub-regulation (1) and (2) shall not be applicable to exposure taken by an NBFC in its own subsidiaries out of its surplus equity.

(3) In case of micro financing, the following Exposure limits shall be applicable:

- (a) Poor Person  
Rs. 500,000 for housing loan  
Rs. 200,000 for general loans other than housing loan
- (b) Microenterprise  
Rs. 500,000
- (4) Exposure under this Regulation shall be calculated as under, -
  - (a) hundred per cent (100) of the deposits placed with the lending NBFC, under perfected lien, shall be deducted from Exposure;
  - (b) ninety per cent (90) of the following shall be deducted from Exposure, -
    - (i) deposits with any other financial institution or scheduled bank rated at least A or equivalent by a credit rating agency registered with the Commission, under perfected lien; and
    - (ii) encashment value of Government Securities and National Saving Scheme securities deposited by the Borrower with the lending NBFC as collateral;
  - (c) 85% of the unconditional financial guarantees, payable on demand, issued by the scheduled banks rated at least 'A' or equivalent by a credit rating agency registered with the Commission, accepted as collateral by NBFCs shall be deducted from the Exposure;
  - (d) thirty per cent (30) of listed Term Finance Certificates and Sukuks and shares of the KSE 100 index companies held as security with duly marked lien shall be deducted:

Explanation.- The TFCs and Sukuks to qualify for this purpose should have been rated at least 'A' or equivalent by a credit rating agency registered with the Commission;
  - (e) seventy five per cent (75) of the Encashment Value of a Life Policy issued by an A-rated insurance company, duly assigned and endorsed in favor of the lending NBFC using it as a Security"; and
  - (f) the following weightage will be applicable in respect of placements with financial institutions,-
    - (i) 10% weightage on Exposure to financial institutions with 'AAA' Rating;
    - (ii) 25% weightage on Exposure to financial institutions rated at least 'AA';

- (iii) 75% weightage on Exposure to financial institutions rated at least 'A'.?;

(19) after regulation 17 amended as aforesaid, the following new regulations shall be inserted, namely:-

**“17A. Maintenance of Capital Adequacy Ratio (‘CAR’).-** A deposit taking NBFC shall be required to maintain CAR of eight per cent (8) for the first two years from coming into force of these regulations and ten per cent (10) for subsequent years as per the criteria given in Schedule IXA.

**17B. Asset Liability Management System.** -The board of directors of a deposit taking NBFC shall approve a policy for effective monitoring of the NBFC’s assets and liabilities profiles for managing liquidity risks by containing mismatches (running total) in maturity of assets and liabilities across all time buckets by establishing internal prudential limits.

**17C. Exposure Limits in Capital Market.-** (1) An NBFC’s aggregate exposure in listed equity securities (in the ready as well as in futures market), and spread transactions shall not exceed fifty percent of its equity.

Explanation:- For the purpose of this Regulation “spread transactions” mean such transactions where shares of one company are purchased on one settlement date and simultaneously sold on another settlement date, that will be considered as one transaction:

Provided that the above condition shall not be applicable on non-deposit taking NBFCs.

(2) An NBFC’s investment in equity securities of any company shall not exceed ten percent (10) of the paid-up capital of the investee company or ten per cent (10) of its own equity, whichever is less and the shares acquired in excess of the ten per cent limit, due to the Underwriting Commitments, shall be sold off within a period of six months from the date of acquisition of such shares:

Provided that the amount of provisions created against permanent diminution shall be deducted from the cost of acquisition of equity investments and the maximum limit:

Provided further that the above restriction shall not be applicable to investments made by an NBFC in its own subsidiaries and long term strategic investments out of surplus equity.

Explanation:- For the purpose of this Regulation “investments in equity securities” shall be valued at cost of acquisition for the purpose of calculating the above limit.”;

(20) for regulation (18), the following shall be substituted, namely:-

**“18. Limit on clean placements.-** An NBFC shall make clean placement only with financial institutions rated at least A- or equivalent by a credit rating agency registered with the Commission:

Provided further that the aggregate Exposure of Deposit taking NBFC shall not exceed its equity.

Explanation. For the purpose of this Regulation “clean placement” means Exposure without taking any security or collateral.”;

- (21) after regulation 18, amended as aforesaid, the following new regulation shall be inserted, namely:-

**“18A. Limit on Unsecured Finance. -** An NBFC may provide unsecured Finance up to Rs. 200,000/- (Rupees two hundred thousand only) to a single borrower. The aggregate unsecured Finance shall not exceed equity of the NBFC:

Provided that the total unsecured finance shall not exceed 50% of the equity of the deposit taking NBFC provided further that this Regulation shall not be applicable in case of Non-Bank Micro Finance Company.”;

- (22) for regulation 19, the following shall be substituted, namely:-

**“19. Restrictions on certain types of transactions. –** An NBFC shall not, -

- (a) provide a Finance against equity and debt security issued by it or its group companies;
- (b) provide Finance against Unlisted Debt Security and Unlisted Equity Security;
- (c) provide Finance to any company against equity and debt security of that company or group companies of that company;
- (d) provide Finance against shares in physical form of a listed company;
- (e) take Exposure against unsecured debt security or instrument, non-rated debt security or instrument and debt security or instrument rated below A- by a credit rating agency registered with the Commission;

Provided that an NBFC may take exposure against unsecured debt security issued by scheduled banks rated A- and above by a credit rating agency registered with the Commission.

- (f) provide Finance against shares of the sponsor and major shareholder (issued in their own name or in the name of their close relative) of a financial institution;
- (g) hold shares on aggregate basis, whether as pledgee, or absolute owner, of an amount exceeding 15% of the paid-up share capital of that company or 15% of its own equity, whichever is less:

Provided that this restriction shall not be applicable to the investments made by an NBFC in its own subsidiaries or strategic investments held by the NBFC.

- (h) provide Finance to its major shareholders, chief executive, directors, key executives firms or companies in which it or any of its chief executive, directors, key executives, or their close relatives are interested as a partner, director, guarantor or major shareholder:

Provided that Finance extended to employees of an NBFC including chief executive as a part of Employees Service Rules duly approved by the board of directors shall not fall in this category;

- (i) allow Finance on the guarantee of its chief executive, directors, key executives or major shareholders, or by their close relatives; and  
(j) allow Finance to any person for speculative purposes.”;

(23) for regulation 21 the following shall be substituted, namely:-

**“21. Minimum conditions for providing Finance.-** (1) An NBFC shall while providing a Finance (including renewal and enhancement) to a Borrower which is equal to or exceeds five hundred thousand rupees after netting-off the liquid assets held as security, give due weight to the credit report relating to the Borrower or its group obtained from a Credit Information Bureau.

(2) In case of micro financing, the NBFC shall obtain a credit report from Credit Information Bureau of State Bank of Pakistan or any other appropriate credit information bureau before allowing any Finance exceeding Rs. 5,000/-.

(3) If the credit report of Credit Information Bureau indicates overdue, the NBFC may take exposure on such Borrower keeping in view its risk management policies and credit approval criteria. Moreover, it shall properly record reasons and justifications for granting the Finance in the credit approval form; The NBFC shall maintain a file of all such exceptions and provide the same to the inspection team of the Commission as and when it visits the NBFC for on-site inspection.

(4) An NBFC shall not provide finance to a borrower who has defaulted or availed a write-off from that NBFC during the last three years.

(5) While granting Finance to a Borrower who is not an individual the NBFC shall obtain copy of accounts relating to the business of such Borrower for analysis and record in the following manner, namely:-

(a)	where the Exposure does not exceed one million rupees.	Documentary evidence of net worth of the Borrower.
(b)	where the Exposure exceeds one million rupees but does not	Accounts duly signed by the Borrower.

	exceed two million rupees	
(c)	where Exposure exceeds two million rupees but does not exceed five million rupees.	Accounts duly signed by the Borrower and counter signed by: (i) a chartered accountant; or (ii) a practicing cost and management accountant in case of a Borrower other than a public company or a private company which is a subsidiary of a public company.
(d)	where the Exposure exceeds five million rupees.	Accounts duly audited by: (i) a practicing chartered accountant; or (ii) a practicing cost and management accountant in case of a Borrower other than a public company or a private company which is a subsidiary of a public company.

(6) In case the Borrower is an individual the NBFC shall obtain documentary evidence of the means of the Borrower such as wealth statement, statement of assets and liabilities or any other document as may be considered appropriate by the management of the NBFC.

(7) An NBFC shall, before providing any Finance (including renewal and enhancement and rescheduling or restructuring), ensure that the application for loan is accompanied with a "Borrower's Basic Fact Sheet" as prescribed in Schedule XII.

(8) The NBFC involved in Micro Financing shall at the time of granting Finance obtain a written undertaking as given in Schedule XII from the borrower disclosing details of various facilities already obtained from other Financial Institutions.

(9) An NBFC shall ensure that the information requested in the basic fact sheet is provided by the Borrower under his seal and signature.";

(24) for regulation 22, the following shall be substituted, namely:-

**"22. Margin against Finance.** - (1) Save as otherwise provided in Regulation 22(2), an NBFC shall apply such margin requirements against Finance provided as approved by their board of directors.

(2) An NBFC shall comply with the following margin requirements:

Shares of listed companies	30% of their current market value.  An NBFC shall monitor the margin on at least weekly basis and shall institute a robust top-up and automatic sell-out process at 25% and 50% erosion in the margin held respectively. An NBFC may choose different percentages on the basis of the documented credit policy approved by their board.
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Listed TFCs	Exposure against listed TFCs which are rated 'A' (or equivalent) or above by a credit rating agency registered with the Commission shall be subject to a minimum margin of 10%  Exposure against listed TFCs rated 'A-' and 'BBB' shall be subject to a minimum margin of 20%.
Bank deposits and Certificate of Deposit of NBFCs or DFIs and Certificates of Musharaka issued by Modarabas with minimum credit rating of A- by a credit rating agency registered with the Commission.	15%
Government backed securities	10%
Pledge of trading stocks	25%
Hypothecation of trading stocks	50%

(3) All guarantees provided shall be for a specific amount and expiry date and shall contain claim lodgment date and shall be backed by 100% realizable securities except that in the case of performance bonds, bid bonds and mobilisation advance where the condition of 100% cover of realizable securities may be relaxed up to fifty per cent (50) provided that NBFCs hold at least 20% of the guaranteed amount in the form of Liquid Assets as security.”;

(25) for regulation 23 the following shall be substituted, namely:-

**“23. Linkage between Equity of the Borrower and total Exposure from financial institutions.–** (1) An NBFC while taking an Exposure shall not provide finance if the total Exposure availed by the Borrower from financial institutions exceeds 10 times the Equity of the Borrower as disclosed in the financial statements of the Borrower.

Provided that the fund based Exposure of a Borrower shall not exceed 4 times of its equity as disclosed in the Borrower’s latest financial statements. The above limit of 4 times of equity shall not be applicable on exposure to Financial Institution.

Provided further that where the equity of the Borrower is negative and the Borrower has injected fresh equity during its current accounting year, it will be eligible to obtain Finance up to 4 times of the fresh injected equity subject to the condition that the borrower shall plough back at least 80% of the net profit each year until such time that it is able to borrow without this relaxation.

(2) In case of micro financing, the total exposure to a single borrower from all Financial Institutions shall not exceed Rs. 700,000.”;

(26) for regulation 24 the following shall be substituted, namely:-

“**24. Financial indicators of the Borrowers.**- At the time of allowing fresh exposure/ enhancement/renewal, the NBFC shall ensure that the current assets to current liabilities ratio of the borrower is not lower than such ratio as may be required under the credit policy of the NBFC. NBFCs shall prescribe the minimum current ratio under the credit policy keeping in view the quality of the current assets, nature of the current liabilities, nature of industry to which borrower belongs to, average size of current ratio of that industry, appropriateness of risk mitigates available to the NBFCs etc. It is expected that NBFCs credit policy duly approved by the Board of Directors, shall emphasize higher credit standards and provide full guidance to the management about the current ratio requirements for various categories of clients and corresponding risk mitigates etc. acceptable to the NBFCs.”;

(27) for regulation 25 the following shall be substituted, namely:-

“**25. Classification and Provisioning for non-performing assets.** - (1) A Lending NBFC shall observe the criteria for classification of its assets and provisioning as provided in Schedule X.

(2) In addition to time based criteria provided in Schedule X subjective evaluation of performing and non-performing Finance shall be made for risk assessment and where considered necessary the category of classification determined on the basis of the aforementioned time based criteria shall be further downgraded:

Provided that such evaluation shall be carried out on the basis of adequacy of security inclusive of its realizable value, cash flow of the Borrower or lessee, operations in the account and records covering advances and credit worthiness of the Borrower or lessee.

(3) The status of classification of a rescheduled or restructured non-performing Finance shall be changed only when the terms and conditions of the rescheduled or restructured Finance are fully met for a period of at least six months (excluding grace period, if any) from the date of such rescheduling or restructuring and when at least 20% of the outstanding amount (principal and mark up) is recovered in cash:

Provided that the above condition of six months retention period shall not apply if the Borrower repays or adjusts at least 50% of the restructured or rescheduled loan amount (principal and markup) in cash either at the time of restructuring agreement or later-on during the grace period if any.

(4) An NBFC shall ensure that the status of classification and provisioning of a rescheduled or restructured non-performing Finance is not changed in its reports to the

Commission merely due to rescheduling or restructuring of a Finance and rescheduled or restructured Finance shall be reported to the Credit Information Bureau as such and not as default.

(5) Where the Borrower subsequently defaults (either on principal or mark-up) after the rescheduling or restructuring of the non-performing Finance the NBFC shall classify the Finance in the same category as it was in at the time of rescheduling or restructuring and NBFC may further downgrade the classification after taking into account the applicable criteria stated in Schedule X.

(6) At the time of rescheduling or restructuring, an NBFC shall reconsider, re-examine and record in detail the viability of the project or business and shall accordingly obtain a revised business plan, latest CIB report and endeavor to obtain additional security to protect its interests.

(7) A Lending NBFC shall take benefit of realizable value of assets held as collateral against non-performing Finance as per criteria given in Schedule XI;

(8) Subjective evaluation of investment portfolio and other assets shall be carried out by the NBFC. Classification of such assets and provisioning required against them shall be determined by keeping in view the risks involved and the requirements of the International Accounting Standards as notified by the Commission under Section 234(3) of the Ordinance and the Technical Releases issued by the ICAP, from time to time.

(9) An NBFC shall review, at least on a quarterly basis, the recovery of their Finance, portfolio and shall properly document the evaluations so made:

Provided that shortfall in provisioning, if any, determined as a result of quarterly assessment, shall immediately be provided in the books of accounts by the NBFC.

(10) The external auditors as a part of the annual audit of the NBFC shall verify that all requirements under these Regulations or any other circular issued by the Commission for classification of assets and determination of provisions required against them have been complied with.”;

(28) after regulation 25, amended as aforesaid, the following new regulation shall be inserted, namely:-

**“25A. Creation of General Provision against micro finance portfolio:**

The NBFCs with micro finance portfolio shall maintain a General Provision equivalent to 0.5% of the net outstanding micro finance portfolio (Finance net of specific provisions) provided that general provision shall not be required in cases wherein Finance is secured against liquid assets with appropriate margins.”;

(29) in regulation 26, for the words “an” the word “Lending” shall be substituted;

- (30) regulation 27 shall be omitted;
- (31) the heading “Leasing” appearing after regulation 27, omitted as aforesaid, shall be omitted;
- (32) for regulation 28 and 29 and the heading “Investment Finance Services” appearing after regulation 28, the following new regulations shall be substituted, namely:-

**“28. Other Terms and conditions applicable to Lending NBFCs:-** An NBFC shall, in addition to the conditions specified in the Rules, these Regulations and any other conditions that may be specified by the Commission, operate in accordance with the following conditions:

- (a) Lending NBFC shall primarily invest in its licensed form of business. Leasing Company, Housing Finance Company and Discount House shall primarily invest at least seventy per cent of their total assets in leasing, housing finance and discounting services respectively on quarterly average basis:

Provided that cash, deposits with financial institutions, and investment in government securities shall be excluded to calculate the above limit;

- (b) An Investment Finance Company shall invest at least seventy per cent of its assets in Finance on quarterly average basis:

Provided that cash, deposits with financial institutions, and investment in government securities shall be excluded to calculate the above limit;

- (c) A Non-Bank Micro Finance Company shall invest at least seventy per cent of its assets in micro financing:

Provided that cash, deposits with financial institutions, and investment in government securities shall be excluded to calculate the above limit;

- (d) All Underwriting Commitments by an NBFC shall be fully backed by available funds, firm standby lines of credit or other funding arrangements.

### **Housing Finance Services**

- (e) In case of Housing Finance Services, an NBFC shall:
  - (i) determine the housing finance limit, both in urban and rural areas, in accordance with its internal credit policy, credit worthiness and loan repayment capacity of the borrowers;
  - (ii) In case of Housing Finance to an individual, ensure that the total monthly amortization payments of all Finance inclusive of housing finance shall not exceed 50% of the net disposable income of the prospective consumer;
  - (iii) not provide Finance for purchase of land/plots only. All housing finance shall be extended for the purchase of land/plot and construction thereupon.

Accordingly, the sanctioned loan limit, assessed on the basis of repayment capacity of the borrower, value of land/plot and cost of construction on it etc., should be disbursed in tranches, i.e. up to a maximum of 50% of the loan limit can be disbursed for the purchase of land/plot, and the remaining amount be disbursed for construction there-upon. Further, the NBFC shall take a realistic construction schedule from the borrower before allowing disbursement of the initial loan limit for the purchase of land/plot:

Provided that an NBFC may provide housing finance for construction of houses against the security of land/plot already owned by their customers provided that the NBFC shall ensure that the finance is utilized strictly for the construction purpose;

- (iv) the maximum Loan-to-Value ratio shall not be more than 85%;
- (v) extend Finance up to any tenor up to 25 years subject to a maximum tenor that corresponds with the borrower achieving the age of 60 as defined in its duly approved credit policy and keeping in view the maturity profile of its assets & liabilities;
- (vi) ensure that a charge is created over every property financed by it by way of an equitable or a registered mortgage;
- (vii) Either engage professional expertise or arrange sufficient training for their concerned officials to evaluate the property, assess the genuineness and integrity of the title documents, etc.;
- (viii) devise a mechanism to monitor conditions in the real estate market (or other relevant product market) and ensure that its policies are aligned to current market conditions; and
- (ix) arrange for the insurance of mortgaged property from approved insurance companies, to the extent of the finance;

#### **Discounting Services**

- (f) In case of Discounting Services, an NBFC shall:
  - (i) provide Finance for a maximum period of 180 days;
  - (ii) ensure that Finance is provided on recourse basis;
  - (iii) ensure that the financial instruments discounted are legally enforceable and properly discharged in the name of the NBFC; and
  - (iv) maintain appropriate margins against the Finance provided by it.

#### **Micro Financing**

- (g) In case of Micro Financing, an NBFC shall:
- (i) Provide Finance in the name of individuals to ensure traceability and reduce the incidence of multiple borrowing;
  - (ii) develop an internal mechanism to monitor the overall exposure of its borrowers so as to manage credit risk and also minimize the borrowers' over indebtedness;
  - (iii) develop and implement appropriate pricing policies that ensure access to affordable financial services and operational and financial sustainability of the NBFC;
  - (iv) deliver to the Borrower, at the time a finance is granted, a statement showing in clear and distinct terms the amount, date of the disbursement, monthly installment, the nature of the security, if any, the name and address of the Borrower and the rate of mark-up to be charged;
  - (v) give to the Borrower a receipt for every repayment made on account of any Finance at the time of such payment; and
  - (vi) on full repayment of Finance by the Borrower in case of individual lending or all the Borrowers in case of group lending mark indelibly with words indicating payment or cancellation of every paper signed by the Borrower pertaining to the Finance and discharge any mortgage, revoke any pledge, return any note, and cancel any assignment given by the borrower or borrowers as security;
- (h) An NBFC which intends to conduct its business in accordance with Islamic Shariah principles shall comply with the conditions as specified by the Commission.

**29. Permissible Activities.** - (1) A lending NBFC, in addition to the licensed form of business, may engage in any one or more of the following activities subject to the compliance with the relevant regulatory framework,-

- (a) Take part in all stages of preparation for public issues or private placement;
- (b) make investment in projects through -
  - (i) underwriting of public issue of stocks, shares and securities;
  - (ii) short-term and long-term participation term certificates; and
  - (iii) term finance certificates of varying features;
- (c) guarantee and counter-guarantee loans and obligations, including establishment of documentary credits;
- (d) act as adviser and financial agent for companies in obtaining direct bank loans,

- syndicated loans, export credits, leases and project finances, both domestically and internationally;
- (e) assist companies in private placement of debt and equity, domestically or overseas
  - (f) act as adviser to companies in corporate or financial restructuring as well as in the preparation of resource mobilization plans;
  - (g) act as adviser to companies in mergers, acquisition and divestitures;
  - (h) assist companies with cash management systems;
  - (i) prepare feasibility, market or industry studies for companies, both domestic and overseas;
  - (j) assist to raise equity for new and existing companies, by acting as financial agent;
  - (k) act as custodian for securities owned or held by clients pursuant to their instructions and provide each or any of the following services;
    - I. custody of securities;
    - II. receipt of dividends and other income on securities;
    - III. execution of voting and other rights in connection with securities;
    - IV. holding securities on behalf of their clients; and
    - V. transacting aforesaid activities through nominees, agents, or attorneys;
  - (l) act as nominees, agent, attorney, administrator, executor or trustee for clients;
  - (m) act as trustee for Collective Investment Schemes, private equity and venture capital funds, real estate investment trusts and debt instruments, if so approved by the Commission;
  - (n) raise funds through equity, foreign and local debentures both short and long term, commercial paper issued locally or overseas, sale of short and long term participation certificates and term finance certificates;
  - (o) act as authorized seller for securities and certificates, denominated in local or foreign currency, issued by Federal or Provincial Governments, statutory bodies, and state-owned corporations, including instruments of National Savings Schemes;
  - (p) provide safe deposit vaults to clients;
  - (q) handle payments and collections for clients;
  - (r) provide discounting services, consumer financing etc.;

- (s) provide finance for capital market including margin financing; and
  - (t) any other activity as may be permitted by the Commission.”;
- (33) regulations 30, 31, 32, 33, 34 and 35 shall be omitted;
- (34) For the heading “Part III” the heading “PART IV” shall be substituted;
- (35) in regulation 37,-
- (a) for sub-regulation (1), the following shall be substituted, namely:-

“(1) An Asset Management Company shall appoint or designate at least one asset class specialist for each class of funds as per the criteria as may be specified by the Commission.”;
  - (b) in sub-regulation (3) for clause (k) the following shall be substituted, namely:-

“(k) record and sign its decisions in line with guidelines and objective for investments and disinvestments separately for each Collective Investment Scheme; and”;
  - (c) in sub-regulation (5),-
    - (i) in clause (b) the word “and” at the end shall be omitted;
    - (ii) in clause (c) after semi colon at the end the word “and” shall be inserted; and
    - (iii) after clause (c) amended as aforesaid, the following new clause shall be inserted, namely:-

“(d) Status of compliance of Asset Management Company and Collective Investment Schemes with applicable regulatory framework.”;

and
  - (d) in sub-regulation (7),-
    - (j) in clause (k) the word “and” at the end shall be omitted;
    - (ii) in clause (l), “full stop” at the end shall be substituted with the “colon” at the; and
    - (iii) after clause (l) amended as aforesaid, the following new clauses shall be inserted, namely:-

“(m) undertake any business activities other than the activities/ forms of businesses licensed by the Commission; and

- (n) assume or issue in relation to and on behalf of the Collective Investment Schemes, any type of guarantees or letter of comfort to investors.

Provided that an AMC may pledge its investments in CIS, government securities, any other liquid asset or have a lien marked on its management fee in the interest of its unit holders subject to the terms and conditions approved by the Commission.”;

(36) for regulation 38 the following new regulation shall be substituted, namely:-

**“38. Obligations of the Asset Management Company.-** (1) Fiduciary responsibilities,-

An Asset Management Company shall as applicable:

- (a) act in good faith and in the best interest of its unit/certificate holders without taking advantage for itself or any of its related parties, group companies or employees at the expense of its unit holders;
- (b) place unit / certificate holder’s interest before their own;
- (c) ensure that the investment decisions and actions are in accordance with the investment policy, objectives and restrictions including risk parameters, as stated in the Constitutive Documents;
- (d) not carry out any transaction on behalf of unit/certificate holder’s with any of its connected person unless such transaction is carried out on arm’s length terms and with appropriate disclosure;
- (e) not trade excessively on behalf of the unit/certificate holders, taking into account the stated investments objective of the unit / certificate holders;
- (f) not participate in any business relationship or accept any gift that could reasonably be expected to affect their independence, objectivity, or loyalty to unit / certificate holders;
- (g) neither profit or seek to profit from confidential information, nor provide such information to anyone with the objective of making profit for itself or for its unit/certificate holders; and
- (h) shall formulate policies and procedures for proper discharge of its fiduciary responsibility. Such policy shall cover the following minimum principles / requirements,-
  - (i) Mechanism to ensure employees of the Asset Management Company exercise reasonable care and prudent judgment while managing unit / certificate holder’s assets;

- (ii) Requirements to ensure fair and objective dealing with all unit/certificate holders, when providing investment information, making investment recommendations, or taking investment action;
  - (iii) Restriction on employees of Asset Management Company from entering into any transaction which may conflict with a duty of care owed to a unit/certificate holder. Where it is practically not possible to avoid conflict, ensure its complete and timely disclosure to unit/certificate holders;
  - (iv) Measures for restricting excessive trading that cannot be directly linked to a profitable trade for the CIS, and ensuring that only the minimal number of trades take place taking into account the schemes' stated objectives;
  - (v) Measures for always ensuring that the best price and terms are negotiated when trading in securities, in the interest of the CIS investors;
  - (vi) Appropriate measures to determine and present investment performance in a fair, accurate and timely manner and not misrepresent the performance of Collective Investment Scheme;
  - (vii) Mechanism for ongoing and timely unit / certificate holder communications such as Collective Investment Scheme's portfolio information, which does not contain any inaccurate or misleading information;
  - (viii) Proper procedures to ensure confidentiality of unit/certificate holders information;
  - (ix) Mechanism and process for proper and timely handling of any unit/certificate holder complaints along with details of dedicated personnel to deal with such matters; and
  - (x) Formalizing a mechanism and take steps to avoid and eliminate the misalignment of incentives due to conflict of interest between the compensation of key executives of asset management company and interest of the unit holders.
- (2) An Asset Management Company shall,-
- (a) account to the trustee for any loss in value of the assets of the Open End Scheme or Closed End Scheme where such loss has been caused by its negligence, reckless or willful act or omission;
  - (b) be responsible for the acts and omissions of all persons to whom it may delegate any of its functions as manager as if they were its own acts and omissions;
  - (c) be responsible for maintaining proper accounts and records of the Open End Scheme or Closed End Scheme which will enable a complete and

accurate view to be formed of, -

- (i) the assets and liabilities of the Open End Scheme or Closed End Scheme;
  - (ii) the income and expenditure of the Open End Scheme or Closed End Scheme;
  - (iii) all transactions for the account of the Open End Scheme or Closed End Scheme;
  - (iv) amounts received by the Open End Scheme or Closed End Scheme in respect of issues of units;
  - (v) pay-out by the Open End Scheme on redemption of units and by way of distributions by the Closed End Scheme or Open End Scheme; and
  - (vi) pay out at the termination of the scheme;
- (d) maintain the books of accounts and other records of the Open End Scheme and Closed End Scheme for a period of not less than ten years;
- (e) within three months of closing of the accounting period of the Open End Scheme and Closed End Scheme transmit or make available on its website to the unit or certificate holders, and submit to the trustee, the Commission and stock exchanges, on which the units or certificates of the scheme are listed, the annual report as per the requirements set out in Schedule V including,
- (i) copy of the balance sheet and income statement;
  - (ii) cash flow statement;
  - (iii) statement of movement in unit holders' or certificate holders' fund or net assets or reserves; and
  - (iv) the auditor's report of the Open End Scheme or Closed End Scheme;
- the Asset Management Company shall make the printed copy of the said accounts available to any certificate or unit holder, free of cost, as and when requested;
- (f) within one month of the close of first and third quarters and within two months of the close of second quarter of the year of account of the Open End Scheme or Closed End Scheme, prepare and transmit or make available on its website to the unit or certificate holders, and submit to the trustee, the Commission and stock exchanges, on which the units or certificates of the scheme are listed, -

- (i) balance sheet as at the end of that quarter;
- (ii) income statement;
- (iii) cash flow statement;
- (iv) statement of movement in unit holders' or certificate holders' fund or net assets or reserves; and
- (v) statement showing the securities owned at the beginning of the relevant period, securities purchased or sold during such period, and the securities held at the end of such period together with the value (at carrying and at market) and the percentage in relation to its own net assets and the issued capital of person whose securities are owned for that quarter, whether audited or otherwise:

Provided that the AMCs may transmit or make available the said quarterly accounts to the unit or certificate holders by placing them on its website and the Asset Management Company shall make the printed copy of the said accounts available to any certificate or unit holder, free of cost, as and when requested;

- (g) maintain a record of unit or certificate holders of the Open End Scheme or Closed End Scheme and inform the Commission and the trustee of the address where the register is kept;
- (h) at the establishment of the Open End Scheme or Closed End Scheme and upon any vacancy appoint an auditor, with the consent of the trustee, from the approved list of auditors circulated by the Commission, who shall be a chartered accountant and independent of the auditor of the Asset Management Company and the trustee and such auditor shall not be appointed for more than five consecutive years and contents of the auditor's report shall be in accordance with Schedule V;
- (i) be obliged to obtain stability rating of the Collective Investment Scheme, once the scheme becomes eligible for rating as per the rating criteria of the rating agency, and such rating shall be updated at least once every financial year and also published in the annual and quarterly reports of the Collective Investment Scheme provided that MUFAP shall publish on its web site, ranking of collective investments schemes on the basis of their return on periodic basis;
- (j) be obliged to process payment instrument immediately on receipt of redemption application and to issue units not later than upon realization of proceeds accompanying an investment application;
- (k) be obliged to provide such information and record to the trustee as may be necessary for the trustee to discharge obligations under these Regulations;

- (l) manage the Collective Investment Scheme according to its Constitutive Documents, the rules, regulations, circular or directives issued by the Commission;
- (m) establish and maintain comprehensive risk management systems and controls to enable it to identify, assess, mitigate, control and monitor risks in best interest of unit holders of the Collective Investment Schemes under its management;
- (n) formulate and implement internal control policies approved by its Board of Directors, for ensuring:
  - (i) appropriate segregation of duties and information barriers between the trading, risk management and processing functions, commonly referred to as the front, middle and back offices;
  - (ii) Establishment of 'Chinese Walls' including policies and physical apparatus designed to prevent the improper or unintended dissemination of market sensitive information from one division of a multi-service AMC to another division;
  - (iii) that the individuals involved in making investment decisions for the Collective Investment Scheme are not trading on the basis of inside information;
  - (iv) employment of sufficient trained human resource;
  - (v) documentation and recording of channels of communications; and
  - (vi) establishment of effective internal audit and compliance functions having appropriately trained and competent staff;
- (o) formulate a risk management policy approved by its Board of Directors for identifying, measuring and managing the risks of the investments, including the sources, nature and degree of such risks. Such policy shall cover the following minimum aspects:
  - (i) risk profile of investment portfolio;
  - (ii) Risk limits pertaining to credit, market and liquidity risks that are consistent with the risk profile of the investment portfolio; and
  - (iii) Assessment of the concentration and interaction of relevant risks at the portfolio level.
- (p) Identify and assign a unit, department or personnel for carrying out risk management function which shall be, hierarchically and functionally, independent of the operating units and shall be responsible for the identification, monitoring / measurement and proper management of all risks;

- (q) implement a contingency plan to ensure continuity of its operations in the event of a disaster or crisis. Such contingency plan shall at the minimum cover the following requirements/principles:
  - (i) offsite backup of key records, systems and information and mechanism for recovery;
  - (ii) alternate ways of communications with customers, employees, and regulators;
  - (iii) details of key service providers in case of disaster;
  - (iv) details of availability of necessary redundancies - including infrastructure redundancies as well as operational and human capital; and
  - (v) testing of the contingency plan on regular basis.
- (r) maintain a website containing following minimum information;
  - (i) latest financial statements of the CIS;
  - (ii) constitutive documents of the CIS;
  - (iii) important notices;
  - (iv) information material for products offered by the AMC including NAV of the CISs, latest Fund Manager Report etc.;
  - (v) complaint handling mechanism and related details;
  - (vi) Expense ratio of CIS under management;
  - (vii) Education material for investors;
  - (viii) SECP investor complaints web address; and
  - (ix) SECP investor education web address;
- (s) send an investment account statement to each unit/certificate holder on the registered mailing address provided by the unit holder at least once in a year. An Asset Management Company shall provide the account statement to the investors within 7 working days from the receipt of such request;
- (t) update the constitutive documents of the CIS under its management in case of any amendments made in the constitutive documents with the approval of Commission, immediately or after completion of the duration of the notice period, as the case may be.”;

(37) after regulation 38 substituted as aforesaid, the following new regulations shall be inserted, namely:-

**“38A. Responsibilities towards Corporate Governance and Proxy Voting: An Asset Management Company shall:**

- (a) formulate a Corporate Governance policy approved by its Board of Directors:
- (b) formulate proxy voting policy approved by their Board of Directors which covers the following minimum aspects:
  - (i) Authority and responsibility for voting proxies;
  - (ii) Voting procedures;
  - (iii) Internal participants to be consulted in evaluation of a proxy proposal;
  - (iv) Procedure and controls for avoidance or minimization of conflicts of interest;
  - (v) Disclosure of conflict of interest;
  - (vi) Record keeping of proxy voting;
  - (vii) System to monitor proxy-voting responsibilities;
  - (viii) Circumstances under which proxies shall not be voted; and
  - (ix) Disclosure of proxy voting.
- (c) ensure that the proxy voting policy at minimum covers the following areas:-
  - (i) Election of Directors;
  - (ii) Corporate Governance;
  - (iii) Appointment of Auditors;
  - (iv) Changes in Legal and Capital Structure; proposals affecting shareholder rights;
  - (v) Corporate restructuring; and
  - (vi) Mergers and acquisitions.
- (d) while participating in the election of the Board of Directors of the investee company, ensure that by exercising the right to vote proxy on behalf of the unitholders of the CIS, does not result in attaining the management control of the investee company, in contravention of the Regulations:
- (e) at the minimum maintain following records in relation to proxy voting:

- (i) the name of the issuer of the securities on which the vote has been cast;
  - (ii) name of major beneficial owner(s) of the securities;
  - (iii) number of shares held by CIS on record;
  - (iv) the date on which the proxy was voted; and
  - (v) the results of the vote.
- (f) disclose the proxy voting policy approved by its Board of Directors on its websites and shall also submit it to the Commission:
- (g) include in the annual report of the CIS summary of actual proxy voted during the year as per table given below:

**Summary of Actual Proxy voted by CIS:**

	Resolutions	For	Against	Abstain*
Number				
(%ages)				

*\*Reasons for abstaining shall be disclosed.*

- (h) disclose in the annual report of CIS the cases where AMC on behalf of CIS did not participate in shareholders' meetings.

Further, the AMC shall include in the annual report of the CIS a statement that the proxy voting policy of the CIS is available on the website of the AMC and detailed information regarding actual proxies voted by the AMC in respect of the CIS is also available without charge, upon request, to all unit holders.

**38B. Trading by Employees.** An Asset Management Company shall put in place, appropriate policies and procedures which govern trading or investment in securities by AMC employees, their spouse and dependent children, and such policies shall at the minimum cover following requirements/principles:

- (i) disclosure by an AMC employee, within 10 days of his appointment, of any securities held by him or her, his or her spouse and / or dependent children along with details of their broker accounts. Such reporting of information shall be done to the Compliance Function of the AMC;
- (ii) Criteria for approving or rejecting an application seeking trading or investment in securities by AMC employees;
- (iii) Periodic disclosure of securities held by the AMC employees, their spouses and dependent children, at least on a quarterly basis. However, reporting of actual transactions, including volume, date and price, on a same day basis;
- (iv) Restriction on AMC employees from deriving any benefit or personal advantage

from information which is generally not available and which is obtained by reason of or in the course of their employment with AMC;

- (v) Prescribing minimum holding period and discourage trading for speculative purposes;
- (vi) Retention, for a period of at least three years, of complete record of all applications including the date of the request, the name of the applicant, details of the proposed transaction and whether the request was approved or denied and waivers given, if any, and its reasons;
- (vii) Restricting personnel involved in the investment decision making process from initiating trades in a security within twenty four hours of a pending buy or sell order in the same security by the AMC and until such order is executed or cancelled;
- (viii) Prescribe trading windows and blackout periods to restrict the misuse of confidential information; and
- (ix) establish stringent requirements for those personals, whether AMC employee or director, who:
  - (a) in his or her regular function or duty makes or participates in investment decisions, or obtains information, prior to buying or selling investments on behalf of a Collective Investment Scheme;
  - (b) engages in making of any recommendations with respect to such buying or selling;
  - (c) or any person over whom such persons exercise control and influence in terms of the investment decision making; and
  - (d) Use of restricted lists and watch lists securities to detect unauthorized trades.

(38) For regulation 39 the following shall be substituted, namely:-

**“39. Registration of trust and Appointment of trustee.** - (1) A CIS shall only be established as a trust registered in accordance with the provisions of Trust Act 1882(II of 1882).

(2) The trustee for an Open End Scheme or a Closed End Scheme shall be appointed by an Asset Management Company subject to the provisions of these Regulations.

(3) The Asset Management Company shall, before it applies for the registration of an Open End Scheme or Closed End Scheme, apply to the Commission for the approval of appointment of trustee which is registered with the Commission.

(4) The Commission, if deems appropriate, may accept the request of the Asset Management Company for appointment of trustee.”;

- (39) In regulation 40B, in sub-regulation (1),-
- (a) clause (e) after the semi colon at the end the word “and” shall be omitted; and
  - (b) after clause (e) amended as aforesaid the following new clause shall be added, namely:-  
  
“(ea) availability of sufficient insurance coverage on assets under trusteeship against any loss that may be incurred as a result of employees’ fraud or gross negligence; and”;
- (40) In regulation 45A, in sub-regulation (3), after the word “Scheme” at the end the words “and the management company shall not be entitled to any further remuneration”; shall be inserted;
- (41) in regulation 54, for sub-regulation (1) the following shall be substituted, namely:-  
  
“(1) Offering Document of a Collective Investment Scheme shall be submitted to the Commission for approval prior to its issue.”;
- (42) in regulation 55,-
- (a) in sub-regulation (9) after the table the following proviso shall be added, namely:-  
  
“Provided that the Commission may specify a higher maximum limit for a specific sector.”;
  - (b) for sub-regulation (13) the following shall be substituted, namely:-  
  
“(13) where the Exposure of a Collective Investment Scheme exceeds the limits specified in sub-regulation (5), (6) or (9) of this regulation because of corporate actions including taking up rights or bonus issue or due to market price increase or decrease in net assets due to redemption the excess Exposure shall be regularized within four months of the breach of limits.”;
  - (c) after sub-regulation (14) the following new sub-regulations shall be inserted, namely:-  
  
“(15) A Collective Investment Scheme may invest only in securities, commercial papers, deposit with Financial Institutions, place funds with financial institutions, or invest in any other avenues as approved by the Commission from time to time.

(16) The exposure limits prescribed under sub-regulation (5), (6), (9) and (10) of this regulation will not be applicable in case of exposure in securities issued by the Federal Government i.e. PIBs, TBs, Government Ijara Sukuks.”;

(43) for regulation 56 the following shall be substituted, namely:-

“**56. Sale of securities and cost thereof.**- Securities representing the capital of a Closed End Fund shall be offered to the public at par but no such offer shall be made unless the offer has been underwritten by an underwriter with the prior approval of the Commission.”;

(44) in regulation 58, sub-regulation (1),-

(a) in clause (j) for the word “lend” appearing at the beginning the word “finance” shall be substituted; and

(b) For clause (k) the following shall be substituted, namely:-

“(k) in any form borrow, except with the approval of trustee, for meeting redemption request and such borrowing shall not exceed fifteen per cent or such other limit as specified by the Commission of the total net asset value of an Open End Scheme at the time of borrowing. The maximum period of borrowing shall be 90 days however; any net cash flows during interim period shall be utilized for repaying of borrowing;”;

(45) In regulation 59, after sub-regulation (3) the following new sub-regulation shall be inserted, namely:-

“(4) An Asset Management Company may undertake transactions involving sale and purchase of securities between the Collective Investment Schemes managed by it where the:-

(a) Sale and purchase decisions are in the best interest of the Schemes involved;

(b) Transactions are executed on an arm’s length and fair basis; and

(c) Rationale for undertaking such transactions is documented prior to the execution.”;

(46) In regulation 60,-

(a) In sub-regulation (3) after the clause (r) the following new clauses shall be inserted, namely:-

“(s) fees and expenses related to registrar services, accounting, operation and valuation services related to CIS maximum up to 0.1% of average annual net assets of the Scheme or actual whichever is less;

- (t) shariah advisory fee; and
  - (u) custody and insurances costs relating to the safekeeping of the physical gold in the vault(s) for Commodity Funds.”;
- (b) After sub-regulation (4) the following new sub-regulation shall be added, namely:-

“(5) The Total Expense Ratio of a Collective Investment Scheme shall be capped as given below:

- (a) Equity, Balanced, Asset Allocation and Capital protected (dynamic asset allocation-direct exposure) Schemes up to 4%;
- (b) Money Market upto 2%;
- (c) Income, aggressive income, Capital protected, Index and Commodity Schemes (cash settled) upto 2%;
- (d) Commodity Schemes (deliverable) upto 3%;
- (e) Fund of Fund upto 2.5% in case management fee is charged and upto 0.5% incase no management fee is charged;

Provided that the Asset Management Company shall not charge management fee if the fund of fund invests in the schemes managed by the same Asset Management Company;

Explanation:- For the purpose of sub-regulation (5), the costs incurred in relation to any government levy on funds such as sales tax, Worker’s Welfare Fund or SECP fee etc. shall be excluded while calculating Total Expense Ratio for the purpose of these Regulations.”;

- (47) For regulation 61 the following shall be substituted, namely:-

“61. **Remuneration payable to Asset Management Company.-** An Asset Management Company shall be entitled to an accrued remuneration equal to an amount not exceeding 2% of average annual net assets in case of Equity, Balanced, Asset Allocation Schemes and Capital protected (dynamic asset allocation-direct exposure), 1.5% of average annual net assets in case of Income, aggressive income, index, fund of funds and Commodity Schemes (cash settled), 1% of average annual net assets in case of Money Market ,Commodity Schemes (deliverable) and Capital protected schemes, that has been verified by the trustee and is paid in arrears on monthly basis:

Provided that an Asset Management Company may charge performance based or fixed fee or the combination of both which shall not exceed the limit prescribed in this regulation and such fee structure shall be disclosed in the offering document.”;

- (48) In regulation 62, for the words “an annual fee” the words “non-refundable annual fee” shall be substituted. ;
- (49) In regulation 63,-
- (a) Existing regulation shall be renumbered as sub-regulation (1); and
  - (b) After sub-regulation (1) re-numbered as aforesaid the following new sub-regulation (2) shall be inserted, namely:-
 

“(2) Unless otherwise advised by the unit/certificate holders, all dividends to which a unitholder is entitled, shall be credited by the AMCs in the bank account of the unit holder provided by him/her on the application for investment or otherwise.”;
  - (c) In regulation 65(1), for the proviso the following shall be substituted, namely:-
 

“Provided that Regulation 65(1) shall not apply to Closed End Funds having specified maturity of five years or less than five years or where period of maturity is specified.”;
- (50) In regulation 66, for clause (a) the following shall be substituted, namely:-
- “a security listed on a stock exchange, local or foreign as the case may be, shall be valued at the closing price determined by such exchange in accordance with its regulations.”;
- (51) After regulation 66, amended as aforesaid the following new regulations shall be inserted, namely:-
- “66A. Sale and Distribution of units of Collective Investment Schemes:**
- a) An Asset Management Company may sell units of Collective Investment Scheme directly or through distributors. An Asset Management Company shall ensure that to whom it delegates distribution function have valid license/ registration from the Commission.
 

Provided that distributors which are already engaged in the business of distribution of mutual fund units, shall comply with these requirements within six months of coming into force of these regulations.
  - b) An Asset Management Company shall enter into a written agreement with the distributors clearly stating the terms and conditions for avoidance of fraud and mis-selling of Collective Investment Scheme.
  - c) An Asset Management Company and distributor shall not:
    - i. involve either directly or indirectly in the mis-selling of Collective investment schemes;

- ii. sell units of Collective Investment Scheme directly or indirectly by making a false or misleading statement;
  - iii. sell units of Collective Investment Scheme directly or indirectly by concealing or omitting material facts of the scheme; and
  - iv. sell units of Collective Investment Scheme directly or indirectly by concealing the risk factors associated with the scheme.
- d) An Asset Management Company or distributor shall take reasonable care to ensure suitability of the scheme to the investor.
  - e) An Asset Management Company or distributor shall ensure that any performance reporting / presentation is accompanied by all explanations, qualifications, limitations and other statements that are necessary to prevent such information from misleading investors.
  - f) An Asset Management Company or distributor shall ensure that promotional materials do not contain untrue statements or omit to state facts that are necessary in order to prevent the statements from being misleading, false or deceptive.
  - g) An Asset Management Company or distributor shall ensure that performance is measured and presented after taking into account the risk-tolerance, investment objectives, level of understanding and knowledge of the recipient.

**66B. Investment Advisory Services.** - (1) An Investment Advisor and its employees as applicable shall;

- (a) act in good faith and in the best interest of its client(s) or investors without taking advantage for itself or any of its related parties or group companies or employees at the expense of its clients or investor(s).
- (b) place client's or investor's interest before their own.
- (c) ensure that the investment decisions and actions, in case of pooled funds, are in accordance with the investment policy, objectives and constraints including risk parameters, as stated in the fund's constitutive documents.
- (d) ensure that the investment advice, decisions and actions, appropriately take into account the client's or investor's investment objectives, tolerance for risk, time horizon, liquidity needs and financial constraints, that shall be specified and agreed with the client in writing prior to providing such investment services.
- (e) not carry out any transaction on behalf of clients or investors with any of its connected person unless such transaction is carried out on arm's length terms and with appropriate disclosure.
- (f) take measure for restricting excessive trading that cannot be directly linked to a profitable trade for the investors, and ensuring that only the minimal number of trades take place taking into account the investors' stated objectives.

- (g) Ensure that the best price and terms are negotiated when trading in securities, in the interest of the investors.
  - (h) not participate in any business relationship or accept any gift that could reasonably be expected to affect their independence, objectivity, or loyalty to clients or investors.
  - (i) not involve directly or indirectly in the mis-selling of securities.
  - (j) not directly or indirectly sell securities by making a false or misleading statement.
  - (k) not directly or indirectly sell securities by concealing or omitting material facts of investments.
  - (l) not directly or indirectly sell securities by concealing the associated risk factors of the scheme.
  - (m) not assume and issue any type of guarantee ,in relation to and on behalf of the portfolio managed by investment advisor.
- (2) An Investment Advisor shall:
- (a) specify a suitable performance benchmark to be used on a consistent basis, that is commensurate with the investment parameters/risks along with frequency of performance review.
  - (b) ensure that any performance reporting / presentation is accompanied by all explanations, qualifications, limitations and other statements that are necessary to prevent such information from misleading clients or investors.
  - (c) ensure that performance is measured and presented after taking into account the level of understanding and knowledge of the recipient.
  - (d) use market prices to value investments and apply, in good faith, methods to determine the fair value of any securities for which no independent, third-party market quotation is readily available.
  - (e) ensure that promotional materials do not contain untrue statements or omit to state facts that are necessary in order to prevent the statements from being misleading, false or deceptive.
  - (f) formulate policies and procedures for proper discharge of its fiduciary responsibility towards investors and such policy shall cover the following minimum principles / requirements:
    - (i) Mechanism to ensure Investment Advisor's employees exercise reasonable care and prudent judgment while managing client or investor assets;

- (ii) Sufficient measures to ensure that the nature and extent of its fiduciary duties are clearly understood by employees of Investment Advisor;
- (iii) Requirements to ensure fair and objective dealing with all clients or investors, when providing investment information, making investment recommendations, or taking investment action;
- (iv) Ensure portfolio of each client or investor is managed separately from others in case of segregated accounts;
- (v) Restriction on employees of Investment Advisor from entering into any transaction that may create a conflict with a 'duty of care' owed to a client. Where it is practically not possible to avoid conflict, ensure its complete and timely disclosure to clients;
- (vi) Appropriate measures to determine and present investment performance in a fair, accurate and timely manner and shall not misrepresent the performance of individual portfolios or of its own;
- (vii) Mechanism for ongoing and timely client or investor communications such as portfolio information, which does not contain any inaccurate or misleading information;
- (viii) Proper procedures to ensure confidentiality of client or investor information; and
- (ix) Mechanism for proper and timely handling of any client or investor complaints along with details of dedicated personnel to deal with such 'matters.';

(52) For regulation 67, the following shall be substituted, namely:-

**“67. Managing discretionary and non-discretionary client portfolio.-** (1) An Investment Advisor shall inform the Commission before commencement of business of managing Discretionary Portfolio and Non-Discretionary Portfolio and in managing Discretionary Portfolio and Non-Discretionary Portfolio of client it shall:

- (a) accept investment requests only from Eligible Investors;
- (b) exercise due diligence, care and prudence to achieve the investment objective of the Discretionary Portfolio and Non-Discretionary Portfolio of clients;
- (c) organize its affairs in a manner that;
  - (i) Discretionary Portfolio and Non-Discretionary Portfolio of clients are managed separately.

- (ii) ensures that material conflict of interest across different activities is adequately managed.
- (iii) have proper Information Technology system and infrastructure to manage the portfolio.
- (iv) Put in place adequate and appropriate systems, procedures and processes to undertake and monitor different business activities in a proper and efficient manner.
- (v) establish and maintain sufficient risk management systems and controls to enable it to identify, access, mitigate, control and monitor risks in best interest of investors.
- (vi) formulate and implement Board's approved internal control policies and procedures for ensuring;
  - (I) appropriate segregation of duties and information barriers between the trading, risks management and processing functions, commonly referred to as the front, middle and back offices;
  - (II) establishment of 'Chinese Walls' including polices and physical apparatus designed to prevent the improper or unintended dissemination of market sensitive information from one division of multi-service firm to another division .
- (d) make investment or disinvestment decisions independently and on merit;
- (e) charge fees and costs as specified in the written agreement between the parties;
- (f) disclose details separately for Discretionary Portfolio and Non-Discretionary Portfolio by way of separate note to the annual and quarterly accounts such as the number of clients, total portfolio at cost as well as market value and fee earned; and
- (g) comply with any circulars or directions issued by the Commission relating to the business of managing Discretionary Portfolio and Non-Discretionary Portfolio.

(2) An Investment Advisor in the event of any dispute reported by a client or group of clients, shall have the onus to produce evidence, of compliance under regulation 67 (1) to the Commission for its review and decision.”;

(53) in regulation 69,-

- (a) existing regulation 69 shall be re-numbered as sub-regulation (1) and -thereafter the following new sub-regulation (2) shall be added, namely:-

“(2) Save as otherwise provided in these Regulations, all the existing NBFCs and Notified Entities shall comply with the requirements of these amended

Regulations within a period of six months from coming into effect of these amendments.”;

(54) for Schedule I the following new Schedule shall be substituted, namely:-

**“Schedule I**  
**Minimum Equity Requirement**  
[see Regulation 4]

<b>Form of Business</b>	<b>Minimum equity Requirement</b>
New deposit taking NBFCs for obtaining license of Investment Finance Services or Leasing or Discounting or Housing Finance Services	Rs. 1,000 million
Existing NBFCs with valid deposit taking permission having Investment Finance Services license **	Rs. 750 million
Existing NBFCs with valid deposit taking permission having Leasing license **	Rs. 500 million
Non-deposit taking NBFCs for Investment Finance Services license	Rs. 100 million
Non-Bank Microfinance Company for Investment Finance Services License *	Rs. 50 million
Non-deposit taking NBFCs for Leasing or Discounting or Housing Finance Services license	Rs. 50 million for each form of business
Asset Management Services	Rs.200 million
Investment Advisory Services	Rs. 30 million

**Note:**

\*The Non-Bank Micro Finance Companies which do not have share capital shall maintain minimum “Fund and Reserves” (being the excess of assets over liabilities excluding surplus on revaluation of assets and investments) equal to the amount of minimum equity requirement as prescribed in the above table.

\*\*The NBFCs having valid deposit raising permission shall meet the shortfall, if any, in complying with the minimum equity requirement within one year of coming into force of these regulations.”;

(55) for Schedule (II) the following new schedule shall be substituted, namely:-

**“Schedule-II**

[See Rule 4, 5, 7A and Regulation 11, 40A, 40B, 40C, 41, 44 and 60, 62]

A) **Application Fees under the Rules:**

<b>Form</b>	<b>Subject of application</b>	<b>Amount (in Rs.)</b>

Form I	Application for permission to form an NBFC	500,000
Form II	Application for license to undertake or carry out an activity or function	750,000
Form IV	Application for renewal of licence to carry out an activity or function	750,000

**B) Application Fees under the Regulations:**

S.no	Regulation	Subject of application	Amount (in Rs.)
1	Regulation 44	Application for registration of an Open End Scheme or Closed End Scheme	1,000,000
2	Regulation 40A(1)	Application for certificate of registration to act as a trustee	750,000
3	Regulation 40C(1)	Application for renewal of certificate of registration to act as a trustee	750,000

**C) Other Fees:**

Head of fee	Amount (in Rs.)	
Annual Monitoring Fee to be paid by Deposit taking NBFCs.	Rs 250,000/-	
Annual Fee	Type of fund	Rate of annual fee (% of NAV)
	Equity, Index, Asset Allocation	0.095%
	Balanced	0.085%
	Income, Money Market, Capital Protected	0.075%

Provided that for Collective Investment Schemes which on quarterly average basis have at least 1,000 retail investors and more than 50% of Net Assets are held by individual investors, provided that the maximum investment by a single retail investor (considered eligible for calculating the threshold of 1,000) does not exceed 1% of the Net Asset shall pay the annual fee at following rate for the next three years from the date of notification of these regulations, :-

Type of fund	Rate of annual fee (% of NAV)
Equity, Index, Asset Allocation	0.076%
Balanced	0.068%
Income, Money Market, Capital Protected, Commodity	0.06%

(56) in schedule (V), under the heading “Contents of the auditors’ report”, after the sub-clause (i), following new sub-clause shall be inserted:-

“(ia) The auditor has conducted audit of the collective investment scheme in accordance

with the international standards on auditing as applicable in Pakistan.”

- (57) for schedule (IX) and annexures the following new schedule and annexures shall be substituted, namely:-

**“Schedule IX  
FIT AND PROPER CRITERIA  
[see Rule 3 and Regulations 2(1)(xvii) and 10]**

**DEFINITIONS**

"Key Executive" means key executives of the NBFC, Investment Company and includes, inter alia, the persons discharging the following functional responsibilities, -

- a. Any executive, officer acting as second to chief executive officer including chief operating officer or by whatever name called;
- b. any person responsible for heading any specific licensed form of business
- c. chief financial officer, head of accounts or head of finance;
- d. head of internal audit;
- e. head of information technology;
- f. head of credit or risk management;
- g. head of human resource;
- h. head of operations;
- i. head of marketing/sales;
- j. head of research;
- k. head of treasury;
- l. chief investment officer;
- m. head of law, company secretary or compliance officer;
- n. fund manager; and
- o. any other functional responsibility which the Commission may include.

**APPLICATION AND SCOPE**

(1) The Fit and Proper Criteria in relation to an NBFC and Investment Company is applicable to the following persons:

- (i) promoters and major shareholders of the NBFC and Investment Company;
- (ii) director of the NBFC and Investment Company;
- (iii) chief executive of the NBFC and Investment Company;

(iv) Key Executives of the NBFC and Investment Company.

(2) A proposed director or chief executive of the NBFC and Investment Company shall not assume the charge of office until their appointment has been approved by the Commission.

(3) The application for seeking approval of the Commission under clause (2) shall be submitted by the NBFC and Investment Company along with the requisite information required under Annexure "A" and an Affidavit as specified in Annexure "B".

(4) The appointment of Key Executives of an NBFC and Investment Company does not require the approval of the Commission; however an NBFC and Investment Company shall ensure at the time of appointing a Key Executive that such person qualifies the Fit and Proper Criteria.

(5) The fitness and propriety of any person shall be assessed by taking into account all the relevant factors including but not limited to the following:

- (a) Integrity and track record of such person;
- (b) Financial soundness of such a person;
- (c) Competence and capability of the person; and
- (d) Conflict of interest of such person with the business of the NBFC and Investment Company.

Provided that 5(c) and (d) may not be considered while assessing the fitness & propriety of promoters and major shareholder of the NBFC and Investment Company.

Provided further that in case the sponsor and major shareholder is a body corporate, in addition to the relevant/ applicable clauses, corporate behavior of the said body corporate and its sponsors shall be duly considered.

(6) The Fit and Proper Criteria is perpetual in nature and an NBFC, Investment Company shall ensure compliance with the provisions of Fit and Proper Criteria.

(7) The NBFC and Investment Company shall within 30 days of the close of each calendar year submit the following documents with regard to its chief executive and directors:

- (a) Updated resume;
- (b) CIB reports of the chief executive and directors and the companies, firms, sole proprietorships, etc. where they are acting as directors, chief executives, partners or owners; and
- (c) Latest tax returns.

(8) All persons subject to Fit and Proper Criteria shall report any change with reference to their fitness and propriety to the respective NBFCs and Investment Company within three

business days of such change taking effect and NBFCs shall within a period of seven business days from the date of receipt, report the same to the Commission.

(9) NBFC and Investment Company shall monitor whether any change in the status of its chief executive, directors and key executives is contrary to the requirements of the Fit and Proper Criteria. In case of any change in status result in non-compliance with the Fit and Proper Criteria, the NBFC and Investment Company shall immediately stop the person from performing his assigned functions, informs the Commission and initiate the process for replacement of the individual with a fit and proper individual.

(10) Any violations or circumvention of the Fit and Proper Criteria shall be dealt with under the provisions of the Ordinance.

## **ASSESSMENT OF FITNESS AND PROPRIETY**

### **(a) Integrity and Track Record**

A person shall not be considered Fit and Proper if he:

- (i) has been convicted of an offence involving moral turpitude;
- (ii) has been involved in the mismanagement of investments, financial or business misconduct, fraud etcetera;
- (iii) has been the subject to adverse findings, after conducting an inquiry, by the Commission or any other regulatory or professional body or government agency;
- (iv) has been actively involved in the management of a company or firm whose registration or license has been revoked or cancelled or which has gone into liquidation or other similar proceedings due to mismanagement of affairs, financial misconduct or malpractices;
- (v) is ineligible, under the Ordinance or any other legislation or regulation, from acting as a director or serving in a managerial capacity of an NBFC or a company;
- (vi) has entered into a plea bargain arrangement with the National Accountability Bureau
- (vii) in case of promoters or major shareholder of NBFC and Investment Company, does not have the requisite disclosed and verifiable financial resources; and
- (viii) in case of promoters or major shareholders of NBFC and Investment Company, does not have an established and proven track record of successfully running a business enterprise for 3 to 5 years, preferably a public listed company.

### **(b) Financial soundness**

In determining a person's financial soundness, the following shall be considered:

- (i) whether such person's financial statements or record including wealth statements or income tax returns or assessment orders are available;
- (ii) whether the person has been declared by a court of competent jurisdiction as defaulter in repayment of loan to a financial institution;
- (iii) whether any instance of overdue payments or default to a financial institution or write-offs by a financial institution are appearing in the latest Credit Information Bureau report of the person and of the companies, firms, sole proprietorships etc. where the person was a chief executive, director (major shareholder/ sponsor), partner, owner etc.
- (iv) whether the person has applied to be adjudicated as an insolvent and his application is pending;
- (v) whether the person is an un-discharged insolvent; and
- (vi) whether the person has been declared a defaulter by a stock exchange.

**(c) Competence and Capability**

In determining a person's competence and capability the following shall be considered:

- (i) the directors should be individuals having management or business experience of at least five years at a senior level;
- (ii) the directors shall have experience and knowledge in any profession such as banking, Collective Investment Scheme, accounting, law, internal audit or information technology etc.;
- (iii) the chief executive should have a minimum experience of seven to ten years in a senior management position, preferably in the regulated financial services sector;
- (iv) the chief executive should have demonstrated, through his qualification and experience, the capacity to successfully undertake the cognate responsibilities of the position; and
- (v) the key executives must be qualified professionals possessing relevant experience and certification relating to the job or assignment.

**(d) Conflict of interest**

The directors or chief executive of NBFC and Investment Company shall not:

- (i) be a director in any other NBFC and Investment Company engaged in a similar business in Pakistan.

Provided that this condition shall not apply to nominees of the Federal or Provincial Governments on the board of any NBFC and Investment Company;

- (ii) be a director, chief executive, chief financial officer, chief internal auditor, research analyst or a trader (by whatever name or designation called) in a stock brokerage house or in any company or entity owned and controlled by a member of a stock exchange; and
- (iii) be a member of a stock exchange engaged in the business of brokerage or is a spouse of such member or in control of more than 20% shareholding, directly or indirectly through his close relatives.

Provided that the condition given in point (ii) and (iii) above, shall not apply to the Non-deposit taking lending NBFCs.

In case of Key Executives, the NBFCs and Investment Company must ensure that no Key Executive shall head more than one functional area that give rise to conflict of interest within the organization. For example, the departments of audit and accounts shall not be headed by the same person. Further, a key executive shall not hold directorship in his or her personal capacity:

- (a) in a business concern which is also a client of the NBFC, Investment Company and
- (b) in any other financial institution.

## Annexure A

- (a) Information to be provided by promoters, major shareholders (other than a body corporate), proposed directors and proposed chief executive of the NBFC and Investment Company

1.	Curriculum Vitae/Resume containing:
a	Name: (former name if any):
b	Father's or Husband Name:
c	C.N.I.C # / Passport # (In case of foreign nationals) –(attach copy)
d	Latest photograph
e	Nationality:
f	Age:
g	Contact details:
	i) Residential address:
	ii) Business address:
	iii) Tel:
	iv) Mobile:
	v) Fax:
	vi) E-mail:
g	National Tax Number:
h	Present occupation:
i	Qualification(s):
	i) Academic: (Attach copy) (In case of CEO, HEC verification of all degrees)
	ii) Professional: (Attach copy) (In case of CEO, verification of all degrees)
j	<b>Trainings</b>
K	<b>Experience:</b> Position held during the last ten years (along with name and address of company/institution/ body where appointment held, nature of the company/institution/body and dates of appointment). In case of CEO, verification of antecedents from all the previous employers.
2.	<b>Status of directorship</b> <b>Shareholder</b> <input type="checkbox"/> <b>Nominee</b> <input type="checkbox"/> <b>Name of the shareholders/ Group of shareholders he is representing</b> <b>Nature of directorship</b> <b>Executive</b> <input type="checkbox"/> <b>Non-executive</b> <input type="checkbox"/> <b>Independent</b> <input type="checkbox"/> <b>Non-independent</b> <input type="checkbox"/> Number of shares subscribed or held _____ Personal net worth (copy of wealth statement) _____
3.	Names of companies, firms, sole proprietorships and other organizations of which the proposed person is a chief executive, director, partner, owner, office holder or major shareholder.
4.	(1) CIB report issued by SBP for the companies, firms, sole proprietorships, etc. where the applicant is interested as director (sponsor or major shareholder), chief executive, partner or owner (attach original CIB reports)

	<p>(2) An undertaking providing details of the following:</p> <p>I. Any write off availed from any financial institution during the last five years</p> <p>II. Any default of Finance obtained from any financial institution during the last five years.</p> <p>III. Placement on ECL during the last five years</p> <p>IV. Any conviction from any Court of Law or any plea bargain with NAB during the last ten years</p> <p>V. Any write off or default by any related or affiliated person or by any company on whom the applicant or anyone closely related to him had an interest as sponsor, major shareholder, director, chief executive, key executives, etc. during the last five years</p>
5.	In the case of appointment of directors the date of board of directors' meeting in which the appointment of proposed director was approved. (Attach copy of the minutes of the meeting of the board of directors. If the director is elected, then attach a copy of the minutes of the general meeting of the company.)
6.	Names of persons on the board of the NBFC who are related to the applicant.

**Signature**

\*use additional sheets if required

**(b) Information to be provided by a body corporate as promoters and major shareholders of the NBFC and Investment Company:**

1. Financial statements for the last three years;
2. Details of business places;
3. Shareholding details;
4. CIB report of the company and its directors and sponsors;
5. Details of any write off availed from any financial institution during the last five years
6. Details of any default of Finance obtained from any financial institution during the last five years.
7. Details of any rescheduling of Finance obtained from any Financial Institution during the last five years.
8. Any substantial adverse verdicts against the Company from any Court of Law during the last ten years
9. Details of associated companies and subsidiaries;
10. Details of any exiting or potential litigation in the name of the company, its sponsors and directors;
11. Details of any inquiry, investigation conducted by the Commission or any other regulatory or professional body or government agency during the last five years; and
12. Any other information as may be required by the Commission.

**Affidavit  
Before the Securities and Exchange Commission of Pakistan**

**(On Stamp Paper of Appropriate Value)**

I, \_\_\_\_\_ son/daughter/wife of \_\_\_\_\_ adult, resident of \_\_\_\_\_ and holding CNIC/ Passport No. \_\_\_\_\_ do hereby state on solemn affirmation as under:-

1. That I am eligible for the position of \_\_\_\_\_ according to the Fit and Proper Criteria for the position of \_\_\_\_\_, annexed to the Non-Banking Finance Companies (Establishment & Regulation) Rules 2014.
2. That I hereby confirm that the statements made, undertakings provided and the information given by me including that required under Schedule IX is correct and that there are no facts which have been concealed.
3. That I have no objection if the Securities and Exchange Commission of Pakistan requests or obtains information about me from any third party.
4. That I undertake to bring to the attention of the Securities Exchange Commission of Pakistan any matter which may potentially affect my status for the position of \_\_\_\_\_ as per the Fit and Proper Criteria annexed to the Non-Banking Finance Companies and Notified Entities Regulations, 2008.
5. That all the documents provided to Securities Exchange Commission of Pakistan are true copies of the originals and I have compared the copies with their respective originals and certify them to be true copies thereof.

**DEPONENT**

The Deponent is identified by me

**Signature** \_\_\_\_\_  
**ADVOCATE**  
**(Name and Seal)**

Solemnly affirmed before me on this \_\_\_\_\_ day of \_\_\_\_\_ at \_\_\_\_\_ by the Deponent above named who is identified to me by \_\_\_\_\_, Advocate, who is known to me personally.

**Signature** \_\_\_\_\_  
**OATH COMMISSIONER FOR TAKING AFFIDAVIT**  
**(Name and Seal)**

**Information to be provided by key executives of the NBFC and Investment Company**

1. Position and Grade held by the Executive
2. Date of assumption of current position (dd/mm/yyyy)
3. Curriculum Vitae/ Resume containing:
  - a) Name (Former name, if any)
  - b) Father or husband name
  - c) CNIC # / Passport # (In case of foreign nationals)
  - d) Nationality
  - e) Age
  - f) Contact details
    - i. Residential address
    - ii. Business address
    - iii. Telephone
    - iv. Mobile
    - v. Fax
    - vi. Email
  - g) National tax number
  - h) Education
    - i. Academic qualification (HEC verification of all degrees)
    - ii. Professional qualification (verification of all degrees)
  - i) Trainings
  - j) Previous Employment(s) (date-wise) (Verification of antecedents from all previous employers and reasons for any unexplained gaps between two employments)
4. Latest photograph
5. Has the executive ever been convicted of any offence? If yes, please provide details
6. Has the executive ever been censured or penalized by any financial regulator (local or foreign)? If yes please give details
7. Has the executive ever been dismissed from employment? If yes please give details
8. An undertaking providing details of the following:
  - i. Any write off availed from any financial institution during the last five years
  - ii. Any default of Finance obtained from any financial institution during the last five years.
  - iii. Placement on ECL during the last five years
  - iv. Any conviction from any Court of Law and plea bargain with NAB during the last ten years

**(Signature of the concerned official) (Signature and Stamp of Employer)”;**

(58) after Schedule IX, substituted as aforesaid, the following new schedule IXA the following shall be inserted, namely:-

**“Schedule IXA**

- A. CAPITAL ADEQUACY RATIO**  
**[see Regulations 17A]**

Items	Amount
<b><u>Core Capital</u></b>	
1.1 Fully Paid-up Capital	
1.2 Preference Shares (non-cumulative and convertible into ordinary shares)	
1.3 Balance in Share Premium Account	
1.4 Reserve for Bonus Shares	
1.5 General Reserves	
1.6 Statutory Reserve	
1.7 Un-appropriated Profit/(Loss)	
1.8 Sub-Total (1.1 to 1.7)	
<b>Less:</b>	
1.9 Intangible Assets	
1.10 Treasury Stock	
1.11 Investment in subsidiaries and strategic investments	
1.12 Any Other exposure in Subsidiaries & strategic investments	
1.13 Sub-Total (1.9 to 1.14)	
1.14 Eligible Core Capital (1.8-1.15)	
<b><u>Supplementary Capital</u></b>	
2.1 Revaluation reserves on investments – eligible up to 50%	
2.2 Sub-ordinated debt	
2.3 Sub-Total (2.1 to 2.3)	
<b>Total Capital (1.15 + 2.3)</b>	
<b><u>Capital Adequacy Ratio</u></b>	
4.1 Risk Weighted assets (as per Table B)	
4.2 Minimum Capital Requirement (8% or 10% of Total Risk Weighted Assets as per item 4.1)	
4.3 Total Capital	
4.4 Capital Surplus/(Shortfall) – (4.3 – 4.2)	
4.5 CAPITAL ADEQUACY RATIO (4.3/4.1x100)	

**B. Risk Weights On-Balance Sheet Exposure**

Sr. No.	Items	Book Value	External Risk Rating	Risk Weights	Adjusted Value
1	Cash	XX		0%	XX
2	Balances with Central Bank	XX		0%	XX
3	Deposits with Financial Institutions	XX	1 2 3 4,5 and 6	10% 35% 50% 150%	XX
4	Investments in:	XX			
	4.1 Government Securities	XX		0%	XX
	4.2 Listed equity instruments	XX		100%	XX
	4.3 Unlisted equity investments (other than those deducted from capital)	XX		150%	XX
	4.4 Debt securities and instruments	XX	1 2 3 4,5 and 6	10% 35% 100% 150%	XX
	4.5 Investment in mutual funds	XX		100%	XX
	4.6 Placements with FIs	XX	1 2 3 4,5 and 6	20% 35% 50% 150%	XX
	4.6 Other investments	XX		100%	XX
5	Finance Facility	XX			
	5.1 Considered performing	XX			
	5.1.1 Fully secured	XX	1 2 3 4,5 and 6 Unrated	20% 50% 100% 150% 100%	XX
	5.1.2 Fully or partially unsecured	XX		100%	XX
	5.2 Staff loans	XX		0%	XX
	5.3 Considered non-performing (Less amount of provision held)	XX			
	5.3.1 Finance Facility fully secured against liquid, mortgaged, pledged and leased assets	XX		100%	XX
	5.3.2 Finance Facility which are fully unsecured or partially	XX		150%	XX

	secured against liquid, mortgaged, pledged and leased assets				
6	Fixed Assets (net of accumulated depreciation)	XX		100%	XX
7	Assets deducted from capital i.e. intangible assets, investment in subsidiary/ strategic investments, any other exposure in subsidiaries/strategic investments and deferred tax assets	XX		0%	XX
8	Other Assets	XX			
	8.1 Deposits & Prepayments	XX		100%	XX
	8.2 Accrued Income on Advance	XX		100%	XX
	8.3 Accrued Income on Deposits Accounts	XX		100%	XX
	8.4 Accrued Income on Government Securities	XX		0%	XX
	8.5 Accrued Income on Investments – Others	XX		100%	XX
	8.6 Others	XX		100%	XX
	Total	XX			XX

### C. Risk Weights Off-Balance Sheet Exposure

The risk weighted assets of any off balance sheet exposure is calculated first converting it to a credit equivalent by multiplying the exposure amount with a credit conversion factor. Then the resulting credit equivalent amount is multiplied by the risk weight associated with the counterparty as given in Table B above. The following credit conversion factors are associated with the off balance sheet items:

Nature of Transaction	Credit Conversion Factor
<b>Financial &amp; other guarantees</b> The obligations which carries the same credit risk as direct extension of credit, such as an undertaking to make a payment to a third party in the event that a counter party fails to meet a financial obligation or an undertaking to a counterparty to acquire a potential claim on another party in the event of default by that party.	100%
<b>Performance related obligations</b> An irrevocable obligation to pay a third party in the event that counterparty fails to fulfill or perform a contractual non-monetary obligation, such as completion of work at a specified date and delivery of goods etc. This includes issue of performance bonds, bid bonds, warranties, indemnities etc.	75%
<b>Underwriting commitments</b> The commitments which require the underwriter to purchase the securities if the issuer failed to sell.	50%
<b>Lending/posting of securities as collateral</b> The lending or posting of securities as collateral. This includes repurchase/reverse repurchase agreements and securities lending/borrowing transaction.	100%
<b>Other Off-balance sheet exposure</b> (a) Commitments with certain drawdown (b) Commitments (e.g. undrawn formal standby facilities and credit lines) for facilities and credit lines with an original maturity of: 1. One year or less 2. Over one year (c) Commitments that can be unconditionally cancelled at any time without notice	100%   20% 50% 0%

### D. Rating Grid

Rating Grade	PACRA/ JCR – VIS
I	AAA AA+ AA AA-

2	A+ A A-
3	BBB+ BBB BBB-
4	BB+ BB BB-
5	B+ B B-
6	CCC+ and below

“

(59) for schedule X, the following shall be substituted, namely:-

**“SCHEDULE – X  
[see Regulation 25]**

**(a) For all Financing Facilities Other Than Micro Finance**

Classification	Determinant	Treatment of income	Provisions to be made
(1)	(2)	(3)	(4)
OAEM	Where installment, mark-up, interest, profit or principal is overdue by 90 days or more from the due date.	Unrealized mark-up, interest or profit to be put in Suspense Account and not to be credited to Income Account except when realized in cash.	
Substandard.	Where installment, mark-up, interest, profit or principal is overdue by 180 days or more from the due date.	As above	Provision of 25% of the difference resulting from the outstanding balance of principal against the facility less the amount of Liquid Assets realizable without recourse to a Court of Law and adjusted FSV of mortgaged, pledged, leased or collaterally held assets as valued by valuers fulfilling prescribed eligibility criteria, in accordance with the requirements provided in Regulation 25.
Doubtful.	Where	As above.	Provision of 50% of the

	installment, mark-up, interest, profit or principal is overdue by one year or more from the due date.		difference resulting from the outstanding balance of principal against the facility less the amount of Liquid Assets realizable without recourse to a Court of Law and adjusted FSV of mortgaged, pledged, leased or collaterally held assets as valued by valuers fulfilling prescribed eligibility criteria, in accordance with the requirements provided in Regulation 25.
Loss.	Where installment, mark-up, interest, profit or principal is overdue by one and half year or more from the due date.  (b) Where financial instruments discounted are not paid or adjusted within 180 days of the due date.	As above.  As above.	Provision of 100% of the difference resulting from the outstanding balance of principal against the facility less the amount of Liquid Assets realizable without recourse to a Court of Law and adjusted FSV of mortgaged, pledged, leased or collaterally held assets as valued by valuers fulfilling prescribed eligibility criteria, in accordance with the requirements provided in Regulation 25.

**(b) For Micro Finance Portfolio**

Classification	Determinant	Treatment of income	Provisions to be made
(1)	(2)	(3)	(4)
OAEM (Other Assets Especially Mentioned)	Where installment, mark-up, interest, profit or principal is overdue by 30 days or more from the due date.	Unrealized mark-up, interest or profit to be put in Suspense Account and not to be credited to Income Account except when realized in cash.	No provision is required
Sub-standard	Where installment,	Unrealized mark-up, interest or	Provision of 25% of the difference resulting from the

	mark-up, interest, profit or principal is overdue by 60 days or more from the due date.	profit to be put in Suspense Account and not to be credited to Income Account except when realized in cash.	outstanding balance of principal against the Finance less the amount of Liquid Assets realizable without recourse to a Court of Law and adjusted FSV of mortgaged, pledged, leased or collaterally held assets as valued by valuers fulfilling prescribed eligibility criteria, in accordance with the requirements provided in Regulation 25.
Doubtful	Where installment, mark-up, interest, profit or principal is overdue by 90 days or more from the due date.	Unrealized mark-up, interest or profit to be put in Suspense Account and not to be credited to Income Account except when realized in cash.	Provision of 50% of the difference resulting from the outstanding balance of principal against the Finance less the amount of Liquid Assets realizable without recourse to a Court of Law and adjusted FSV of mortgaged, pledged, leased or collaterally held assets as valued by valuers fulfilling prescribed eligibility criteria, in accordance with the requirements provided in Regulation 25.
Loss	Where installment, mark-up, interest, profit or principal is overdue by 180 days or more from the due date.	Unrealized mark-up, interest or profit to be put in Suspense Account and not to be credited to Income Account except when realized in cash.	Provision of 100% of the difference resulting from the outstanding balance of principal against the Finance less the amount of Liquid Assets realizable without recourse to a Court of Law and adjusted FSV of mortgaged, pledged, leased or collaterally held assets as valued by valuers fulfilling prescribed eligibility criteria, in accordance with the requirements provided in Regulation 25.

Note: Classified finance facilities, loans or advances that have been guaranteed by the Government would not require provisioning; however markup, interest or profit on such accounts shall be taken to suspense account instead of income account.

(60) for schedule XI the following shall be substituted, namely:-

**“SCHEDULE – XI  
[see Regulation 25]**

**Uniform criteria for determining the value of assets held as collateral**

- (a) Only Liquid Assets, leased assets, pledged stocks and property having registered or equitable mortgage (where NOC for creating further charge has not been issued by NBFC) shall be considered for taking benefit for provisioning. The aforesaid assets having pari-passu charge shall be considered on proportionate basis of the outstanding amount;
- (b) Hypothecated assets and assets with second charge or floating charge shall not be considered;
- (c) Valuations of leased assets, pledged stocks and mortgaged properties shall be carried out by an independent professional evaluator listed on the panel of evaluators maintained by the Pakistan Banks' Association;
- (d) The evaluators while assigning any values to the leased assets, pledged stocks and mortgaged properties held as collateral, shall take into account all relevant factors affecting the salability of such assets including any difficulty in obtaining their possession, their location, their condition and the prevailing economic conditions in the relevant sector, business or industry. The realizable value of mortgaged, pledged and leased assets determined by the evaluators must take into account the amount that can be realized from the asset if sold in a forced or distressed sale condition. The evaluators shall in their report explain the assumptions, calculations, formula and method adopted in determination of the realizable values;
- (e) The realizable values of leased assets, pledged stocks and mortgaged properties determined by the evaluators shall be subject to verification by the external auditors, who may reject cases of valuation, which in their opinion -
  - (i) do not appear to have been professionally carried out and values determined are unreasonable, or
  - (ii) are not backed by valid documentation of mortgage, pledge or leased assets and are not supported by legal opinion wherever required.
- (f) The categories of liquid assets, pledged stock, leased assets and mortgaged property to be considered for valuation along with discounting factors to be applied would be as under (Apart from the following, no other assets shall be taken into consideration):
  - i) Liquid Assets:  
Valuation of Liquid Assets shall be determined by the NBFC itself and verified by the external auditors. However, in the case of pledged shares of listed companies, value should be taken at market value as per active list of Stock

Exchange(s) on the balance sheet date. Moreover, valuation of shares pledged against Financing shall be considered only if these have been placed Central Depository Company of Pakistan (CDC), otherwise these will not be admissible for deduction as liquid assets while determining required provisions.

ii) Leased assets and mortgaged properties:

The value of the leased assets and mortgaged properties to be considered for provisioning purpose shall be the FSV and the FSV once determined, shall remain valid for three years from the date of the valuation during which period the leased and mortgaged assets will not be revalued for provisioning purpose. Also the adjustment factors of 80%, 70% and 50% shall be applied on the value so determined for the purpose of determining provisioning requirement in 1st, 2nd and 3rd year of valuation, respectively. Thereafter, the leased and mortgaged assets shall be revalued and the adjustment factor of 50% shall be applied for all subsequent years.

The FSV of leased and mortgaged assets shall be restricted to fresh revaluation or previous value, whichever is less. In case of NBFCs, licensed by the Commission to undertake housing finance services, FSV once determined, shall remain valid for a period of ten years from the date of valuation and an adjustment factor of 70% shall be applied on the value so determined for the purpose of determining provisioning requirement in respect of housing finance for the said period.

Except for a Housing Finance Company, if a valuation is older than three years, a fresh re-valuation shall be carried out failing which the valuation shall be taken as nil.

(iii) Pledged stocks

The value of the pledged stocks of perishable and non-perishable goods to be considered for provisioning purpose shall be the FSV. In case of pledged stocks, FSV provided by evaluators should not be more than six months old at each balance sheet date. The goods should be perfectly pledged, the operation of the godown(s) or warehouse(s) should be in the control of the NBFC and regular valid insurance for the benefit of the NBFC, premium payment receipts and other documents should be available. In case of perishable goods, the evaluator should also give the approximate date when these are expected to be of no value. The NBFC shall receive monthly stock statements and conduct quarterly inspections of the pledged goods.

(g) Non-performing Finance against which security or in case of lease, additional security is not available, or where mortgaged, pledged or leased assets have not been valued and verified by external auditors, such Finance shall continue to be classified and provided for according to the time-based criteria prescribed in Schedule X.”; and

(61) for schedule XII the following shall be substituted, namely:-

**“Schedule- XII  
[see Regulation 21**

**Borrower’s Basic Fact Sheets (Corporate, Partnerships and Sole Proprietorships) -**

Date of Request. \_\_\_\_\_

**(TO BE COMPLETED IN CAPITAL LETTERS OR TYPEWRITTEN)**

**1. Borrower’s profile:**

Name										Address																			
Phone#										Fax #					Email Address														
Office					Res.																								
National Identity Card #										National Tax #					Sales Tax #														
Import Registration #					Export Registration #					Date of Establishment					Date of opening of A/C														

**2. Details of directors/owners/partners:**

Name										Address																			
Phone#										Fax #					Email Address														
Office					Res.																								
National Identity Card #										National Tax #																			
Shareholding					Amount					% of Shareholding																			

**3. Management:**

<b>A) EXECUTIVE DIRECTORS/PARTNERS:</b>																			
Name					Address					NIC #					Phone #				
1.																			
2.																			
<b>B) NON-EXECUTIVE DIRECTORS/PARTNERS:</b>																			
Name					Address					NIC #					Phone #				
1.																			
2.																			

**4. Corporate status:**

Sole Proprietorship			Partnership			Public/Private Company		
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5. Nature of business:

Industrial	Commercial	Agricultural	Services	Any other

6. Requested limits:

	Amount	Tenor
Fund Based		
Non-Fund Based		

7. Business handled/effected with all financial institutions during the last accounting year

Imports	Exports	Remittances effected (if any)

8. Existing limits and status:

	Amount	Expiry date	Status	
			Regular	Amount over-due (if any)
Fund Based				
Non-Fund Based				

9. Any write-off, rescheduling/restructuring availed during the last three years:

Name of Financial Institution	Amount during 1st year		Amount during 2nd year		Amount during 3rd year	
	Write-off	Rescheduled/restructured	Write-off	Rescheduled/restructured	Write-off	Rescheduled/restructured

10. Details of prime securities mortgaged/pledged:

A) AGAINST EXISTING FACILITIES:					
Name of Financial Institution	Nature of Security	Total Amount	Rank of Charge	Net Realizable Value	
1.					
2.					
B) AGAINST REQUESTED/FRESH/ADDITIONAL FACILITIES:					
Name of Financial Institution	Nature of Security	Total Amount	Net Realizable Value		
1.					
2.					

11. Details of secondary collateral mortgaged/pledged:

A) AGAINST EXISTING FACILITIES:					
Name of Financial Institution	Nature of Security	Total Amount	Rank of Charge	Net Realizable Value	

Institution				
1.				
2.				
B) AGAINST REQUESTED/FRESH/ADDITIONAL FACILITIES:				
Name of Financial Institution	Nature of Security	Total Amount	Net Realizable Value	
1.				
2.				

12. Credit rating (where applicable):

Name Of Rating Agency	Rating

13. Details of associated concerns (as defined in ordinance):

Name of Concern	Name of Directors	Shareholding	% of Total shares capital

14. Facilities to associated concerns by the concerned FI:

Name of concern	Nature & Amount of limit	Outstanding as on -----	Nature & Value of Securities	Overdues	Defaults

15. Details of personal guarantees provided by the directors/partners etc. to FIs to secure credit:

Names of the Guarantors	Institutions/ persons to whom Guarantee given	Amount of Guarantee	Validity Period	NIC #	NTN	Net-worth

16. Dividend declared (amount) during the last three years:

During 1 <sup>st</sup> Year	During 2 <sup>nd</sup> Year	During 3 <sup>rd</sup> Year

17. Share prices of the borrowing entity:

Listed Companies	Preceding 12 Months Average	Break-up value of the Shares in case of Private Limited Company
Current Price		

18. Net-worth (particulars of assets owned in their own names by the directors/partners/proprietors):

Owner's Name	Particulars of	Market Value	Particulars of
--------------	----------------	--------------	----------------

	Assets		Liabilities

19. Details of all over dues (if over 90 days):

Name Of Financial Institution	Amount

20. Details of payment schedule if term loan sought.

21. Latest Audited Financial Statements as per requirement of Regulation 21(3) to be submitted with the LAF (Loan Application Form).

22. Memorandum and Articles of Association, By-laws etc. to be submitted by the Borrower along with the request.

I certify and undertake that the information furnished above is true to the best of my knowledge.

\_\_\_\_\_  
 CHIEF EXECUTIVE'S/BORROWER'S  
 SIGNATURE & STAMP

COUNTER SIGNED BY:

\_\_\_\_\_  
 AUTHORIZED SIGNATURE & STAMP  
 (NBFC OFFICIAL)".

**Borrower's basic fact sheet – for individuals (other than micro financing)**

Date of Request \_\_\_\_\_

(TO BE COMPLETED IN CAPITAL LETTERS OR TYPEWRITTEN)

1. Borrower's profile:

Name										Address									
Phone#										Fax #					Email Address				
Office					Res.														
National Identity Card #										National Tax #									
Father's Name										Father's National Identity Card #									

2. References (at least two):

Name										Address									
Phone#										Fax #					Email Address				
Office					Res.														
National Identity Card #										National Tax #									

3. Nature of business/profession:

Industrial	Commercial	Agricultural	Services	Any other

4. EXISTING LIMITS AND STATUS:

	Amount	Expiry date	Status		
			Regular	Amount over-due (if any)	Amount rescheduled/restructured (if any)
Fund Based					
Non-Fund Based					

5. Requested limits:

	Amount	Tenor
Fund Based		
Non-Fund Based		

6. Details of payment schedule if term loan sought.

7. Latest Income Tax Form or Wealth Statement to be submitted by the Borrower.

I certify and undertake that the information furnished above is true to be best of my knowledge

\_\_\_\_\_  
 APPLICANT'S SIGNATURE & STAMP  
 COUNTER SIGNED BY:

---

AUTHORIZED SIGNATURE & STAMP (NBFC OFFICIAL)

Signature & Stamp of concerned official  
use additional sheet if required

**UNDERTAKING**  
(Poor Person and Micro Enterprises)

I ----- S/O, D/O, W/O ----- holder of CNIC -----  
---- , undertake that the detail of my existing exposure from Micro Financing NBFCs,  
Microfinance Banks, other micro finance institutions and other financial institutions as on-----  
----- is as under:

Details of Finance availed

Sr #	Name of the MFB/MFI/other financial Institutions	Type of Finance	Outstanding Amount
	Total Exposure		

Signature: \_\_\_\_\_

Name of Applicant: \_\_\_\_\_

CNIC # \_\_\_\_\_

Date: \_\_\_\_\_

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No. SCD/PRDD/NBFC/2015

*Bushra*  
25/11/15

( Bushra Aslam )  
Secretary to the Commission