

INVESTMENT COMPANIES AND INVESTMENT ADVISERS RULES, 1971

(Published in the Gazette of Pakistan Extraordinary, dated 12th March, 1972)

(As amended upto 1st May, 1999)

S.R.O. 78(I)/71.- In exercise of the powers conferred by section 32 of the Securities and Exchange Ordinance, 1969 (XVII of 1969), the Federal Government is pleased to make the following rules to regulate the business of investment advisers and investment companies, namely:-

CHAPTER I

PRELIMINARY

1. Short title and commencement.- (1) These rules may be called the Investment Companies and Investment Advisers Rules, 1971.

(2) They shall come into force at once.

2. Definitions.- In the rules, unless there is anything repugnant in the subject or context,--

(a) "Authority" means the ¹[Corporate Law Authority];

(b) "closed-end company", in relation to an investment company, means a company which does not continuously offer for sale a security which entitle the holder of such security on demand to receive his proportionate share of the net assets of the company;

²[(ba) "connected person" in relation to an investment company means, --

(i) any person or company beneficially owning, directly or indirectly, ten per cent or more of ordinary share capital of investment company or investment advisor or the company, or able to exercise, directly or

¹[1] Substituted by Notification No. SRO 176(I)/82, dated 20-2-1982.

² [2] Inserted by SRO No.46(1)/2001 dated 25th January 2001

indirectly, ten per cent or more of the total votes in that company or the investment advisor;

(ii) any person or company controlled by a person who or which meets one, or both, of the descriptions given in sub-clause (i);

(iii) any member of the group of which that company forms part; or

(iv) any director or officer of that company, or that company's investment advisor or of any of their connected persons specified In sub-clauses (i), (ii) and (iii); and]

(c) “custodian” means a banking company within the meaning of the Banking Companies Ordinance, 1962 (LVII of 1962) ³[or a central depository company approved by the Commission], which is appointed to be a custodian under these rules;

(d) “Form” means a form set out in the ^{4[2]}[First] Schedule;

(e) “net assets” , in relation to an investment company, means the excess of assets over liabilities of the company, such excess being computed in the manner specified hereunder:-

(i) A security listed on a stock exchange shall be valued at its last sale price on such exchange on the date as of which it is valued, or if such exchange is not open on such date, then at its last sale price on the next preceding date on which such exchange was open and if no sale is reported for such date, the security shall be valued at an amount not higher than the closing asked price nor lower than the closing bid price.

(ii) An investment purchased and awaiting payment

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Inserted by SRO No.46(1)/2001 dated 25th January 2001

^{4[2]} Inserted by Notification SRO 29(1)/99 dated 14-1-1999

against delivery shall be included for valuation purposes as a security held, and the cash account of the company shall be adjusted to reflect the purchase price, including brokers' commission and other expenses incurred in the purchase thereof but not disbursed as of the valuation date.

- (iii) An investment sold but not delivered pending receipt of proceeds shall be valued at the net sale price.
- (iv) The value of any dividends, bonus shares, or rights which may have been declared on securities in the portfolio but not received by the company as of the close of business on the valuation date shall be included as assets of the company, if the security upon which such dividends, bonuses or rights were declared is included in the assets and is valued ex-dividend, ex-bonus or ex-rights as the case may be.
- (v) Interest accrued on any interest-bearing security in the portfolio shall be included as an asset of the company if such accrued interest is not otherwise included in the valuation of the security.
- (vi) Any other income accrued upto the date on which computation was made shall also be included in the assets.
- (vii) All liabilities, expenses, taxes and other charges due or accrued up to the date of computation which are chargeable under these rules, other than the paid-up capital of the company, shall be deducted from the value of the assets.
- (viii) The remuneration accrued upto the date of computation payable to the investment adviser for providing management and other services shall be included as an expense.

- (f) “net capital”, in relation to an investment adviser, means an amount by which the current assets, namely, cash in hand or in bank, money receivable within a period of twelve months from the date of the balance sheet and such other assets, not being the value of securities referred to in sub-rule (2) of rule 5, as are so classified under generally accepted accounting principles, exceed the current liabilities, namely, money payable within a period of twelve months from the date of the balance sheet and such other liabilities as are so classified under generally accepted accounting principles;
- (g) “Ordinance” means the Securities and Exchange Ordinance, 1969 (XVII of 1969); ^{5[3]}and
- ^{6[4]}(h) "Schedule" means a schedule to these rules.

^{5[3]} Inserted by Notification SRO 29(I)/99 dated 14-1-1999

^{6[4]} Inserted by Notification SRO 29(I)/99 dated 14-1-1999

CHAPTER II

REGULATION OF THE BUSINESS OF INVESTMENT COMPANIES

3. **No investment company to commence business without registration.**- No company shall commence business as an investment company unless it is registered with the Authority under these rules.

4. **Eligibility for registration .-** A company proposing to commence business as an investment company shall be eligible for registration under these rules if it fulfils or complies with the following conditions or requirements, namely:-

(a) that such company is registered as a public limited company under the ^{7[5]}[Companies Ordinance, 1984 (XLVII of 1984)];

(b) that it is to function as a closed-end investment company with a capital of not less than ^{8[6]}[one hundred million rupees:]

^{9[7]}[*Provided that an existing investment company shall raise its capital to one hundred million rupees within a period of three years;*];

(c) that no director, officer or employee of such company has been convicted of fraud or breach of trust;

(d) that no director, officer or employee of such company has been adjudicated as insolvent or has suspended payment or has compounded with his creditors;

(e) that the promoters of such company are, in the opinion of the Authority, persons of means and integrity and have special knowledge of matters which the company may have to deal with as an investment company.

5. **Registration.**- (1) Any company which is eligible for

^{7[5]}Substituted by Notification SRO 29(I)/99 dated 14-1-1999

^{8[6]}Substituted by Notification SRO 29(I)/99 dated 14-1-1999

^{9[7]}Inserted by Notification SRO 29(I)/99 dated 14-1-1999

registration under rule 4 as an investment company may make an application in Form I to the Authority for registration under these rules.

(2) An application under sub-rule (1) shall, besides the other documents referred to in Form I, be accompanied by ¹⁰[a receipt evidencing a payment of an application processing fee of twenty-five thousand rupees and] an undertaking by the investment adviser of the company that the investment adviser will at all times hold or beneficially own equity securities of the company of an amount which is neither less than ten per cent nor ^{11[8]}more than twenty percent of the paid-up value of such securities^{12[9]}[:]

^{13[10]}[Provided that in case an investment adviser is an adviser to more than one investment company, the application shall be accompanied by an undertaking that the investment adviser shall invest or arrange the investment for a minimum period of two years."];

(3) The Authority, if it is satisfied after such enquiry and after obtaining such further information as it may consider necessary:--

- (i) that the applicant is eligible for registration; and
- (ii) that it would be in the interest of the capital market so to do, may grant a certificate of registration to such company in Form II.

6. Investment policy and diversification.- (1) The investment policy of an investment company shall be clearly and concisely stated in its Memorandum and Articles of Association and the public offer for the sale of its securities:

(2) An investment company shall not enter into any transaction in any security other than a security which is listed on a stock exchange or for the listing of which an application has been made to a stock exchange^{14[11]}[:]

¹⁰ 10

Inserted by SRO No.46(1)/2001 dated 25th January 2001

^{11[8]} Amended by Notification No. SRO No. 553(I)/84, dated 13.06.1984

^{12[9]} Inserted by Notification SRO 29(I)/99 dated 14-1-1999

^{13[10]} Inserted by Notification SRO 29(I)/99 dated 14-1-1999

^{14[11]} Inserted by Notification SRO 29(I)/99 dated 14-1-1999

^{15[12]}[Provided that an investment company may invest in the unlisted securities upto ten per cent in the government securities and rated fixed income securities having minimum investment grade rating upto twenty per cent of its total investment portfolio subject to such conditions as the Authority may notify in the official Gazette.];

(3) The investment of an investment company in any other company shall not, at any time, exceed an amount equal to ^{16[13]}ten percent of paid-up capital of the investment company or an amount sufficient to acquire ten per cent of ¹⁷[issued capital] of that other company¹⁸:

Provided that the Commission may, on application of investment company, relax any or all conditions in case of an investment company established for a specific investment objective where the intention to that effect was expressed in the prospectus].

7. Sale of securities and cost thereof.- (1) Securities representing the capital of an investment company shall be offered to the public at par; but no such offer shall be made-

- (a) until the investment adviser of the investment company has made ^{19[14]}[or has arranged to make] an investment of the amount referred to in sub-rule (2) of rules 5; and
- (b) unless the offer has been underwritten by an underwriter appointed by the investment company with the prior approval in writing of the Authority.

(2) An investment company shall not sell any securities for any consideration other than cash.

(3) All expenses incurred in connection with the incorporation of an investment company and the offer for sale of the securities of the company and the distribution of such securities, including commission payable to the underwriters, shall be borne by the

^{15[12]} Inserted by Notification SRO 29(I)/99 dated 14-1-1999

^{16[13]} Amended and omitted by Notification No. SRO 1032(I)/92, dated 24.10.1992

^{17 17} Substituted by SRO No.46(1)/2001 dated 25th January 2001

¹⁸ Inserted by SRO No.46(1)/2001 dated 25th January 2001

^{19[14]} Amended and inserted by Notification SRO 29(I)/99 dated 14-1-1999

investment adviser and shall be reimbursable by the company in equal amounts paid annually over a period of not less than five years.

(4) ^{20[15]}[Interest at the prevailing bank rate] shall be payable by the company in respect of the expenses referred to in sub-rule (3).

(5) The expenses referred to in sub-rule (3) shall be reported to the Authority, giving their break-up under separate heads, as soon as the distribution of the securities is completed.

8. **Prohibitions.**- No investment company shall-

- (a) merge with, acquire or takeover any other investment company, unless it has obtained the prior approval of the Authority in writing to the scheme of such merger, acquisition or takeover;
- (b) ^{21[16]}pledge any of the securities held or beneficially owned by it;
- (c) make a loan or advance of money to any person except in connection with the normal business of the investment company;
- (d) effect a short sale in any security;
- (e) purchase any security in a forward contract;
- (f) purchase any security on margin;
- (g) participate in a joint account with others in any transaction;
- (h) apply any part of its assets to real estate, commodities or commodities contracts;
- (i) acquire any security of which another investment company is the issuer ²²[but this clause shall not apply in case of floatation of an investment company established with a specific investment objective of

^{20[15]}Amended by Notification No. SRO-553(I)/84, dated 13.06.1984

^{21[16]}Substituted by Notification SRO-749(i)/75 dated 4.7.1975

²² Inserted by SRO No.46(1)/2001 dated 25th January 2001

investing in other investment companies];

- (j) make an investment in a company which has the effect of vesting the management, or control over the affairs, of such company in the investment company;
- (k) employ as a broker, directly or indirectly, any director, officer or employee ²³[or connected person] of the investment company or its investment adviser or any director, officer or employee thereof;
- (l) issue at any time, without the prior approval of the Authority in writing, a senior security which is either stock or represents indebtedness.

9. **Transactions with directors, etc.-** No investment company shall without the prior approval of the Authority in writing, purchase from, or sell to, any director, officer or employee of the investment company or of the investment adviser thereof or a person who beneficially owns ten per cent or more of the equity securities of the company or of its investment adviser.

10. **Appointment of investment adviser.-** (1) No investment company shall appoint any person as an investment adviser except by a contract in writing the terms of which have been previously approved by the Authority in writing.

(2) The contract shall, initially or on renewal, be valid for a period not exceeding ^{24[17]}[ten] years and shall not be renewed or modified unless such renewal or modification has been authorised by the shareholders of the investment company in general meeting and approved by the Authority.

(2A) ^{25[18]}If the contract, as initially entered into or as renewed, is terminated within the first five years of the contract, and not later, compensation for each year of the unexpired period of the contract shall be paid to the investment adviser at the rate of one-fourth of his annual average remuneration during the expired period of the contract.

²³ Inserted by SRO No.46(1)/2001 dated 25th January 2001

^{24[17]}Added by Notification No. SRO 749(I)/75, dated 04.07.1975

^{25[18]}Substituted by Notification No. SRO 749(I)/75, dated 04.7.1975

Explanation.- Where the expired period is a fraction of a year or includes a fraction of a year, the remuneration for the fraction of the year shall be converted pro rata into full years' remuneration and then the average annual remuneration shall be worked out to determine the compensation payable for the unexpired period of the contract; and

(3) The contract shall, among other things, provide that the investment adviser shall bear all expenditure in respect of the secretariat and office space of the company and professional management, including all administrative, accounting and legal services, and that the fee payable to the auditors and the custodian, taxes on income of the company, brokerage, stamp duty and any other duties or taxes connected with the sale or purchase of securities shall be payable by the investment company.

11. Remuneration payable to investment adviser.- The investment adviser of an investment company shall be entitled to be paid annually, after the accounts of the investment company have been audited, a remuneration:-

- (a) ^{26[19]}during the first five years of company's existence, of an amount not exceeding ²⁷[three] per cent of the net assets of the company as at the end of its year of account and thereafter of an amount equal to ²⁸[two] per cent of such assets; and
- (b) ^{29[20]}[of an] amount not exceeding one-half of the amount by which the dividend distributed by the company exceeds ^{**}twenty per cent.

12. Power of Authority to give certain directions.- The Authority, if it is satisfied that it is necessary or expedient so to do in the public interest or of the capital market in Pakistan, may, by order in writing, direct an investment company, within such time as may be specified in the order,-

- (a) to disinvest the whole or such part of the investment portfolio as may be so specified;

^{26[19]}Substituted by Notification No. SRO 749(I), Dated 04-07-1975

²⁷ Substituted by SRO No.46(1)/2001 dated 25th January 2001

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Substituted by SRO No.46(1)/2001 dated 25th January 2001

^{29[20]}Substituted by Notification No. SRO 72(I)/95 dated 18-01-1995

- (b) to refrain from investing or disinvesting such securities as may be so specified;
- (c) to co-opt one or more persons nominated by the Authority as members of the board of directors of the company with the same status, powers and rights as the other members of the board.

13. **Amount distributable to shareholders.-** An investment company shall distribute by way of dividend to its shareholders not less than ninety per cent of its income derived from interest, dividends received and capital gains arising from the acquisition and disposal of securities as reduced by such expenses as are chargeable to company under these rules, including the remuneration payable to the investment adviser.

14. **Publication of portfolio securities.-** Every investment company shall cause to be published, in the Bulletin or other such publication of the stock exchange on which its securities are listed, the names and the value of its portfolio securities as at the end of each half-year.

15. **Custody of securities.-** (1) Every investment company shall place and maintain the securities owned or held by the company with a custodian appointed by it with the prior approval in writing of the Authority.

(2) The investment company shall settle with the custodian a scheme for the custody of securities which shall, among other matters, provide for the circumstances in which the securities may be released from custody.

(3) The custodian shall, if it feels that the nature of any release of a security from custody is contrary to the provisions of these rules, report the matter to the Authority forthwith.

16. **Maintenance of books of accounts and other documents.-** (1) Every investment company shall maintain such books of accounts and other records as shall depict a true and fair picture of its state of affairs, including--

- (a) journals, cash book and other records of original entry forming the basis of entry in any ledger;
- (b) ledgers (or other comparable record) reflecting asset,

liability, income and expense;

- (c) ledgers (or other comparable record) showing at any time securities which are receivable or deliverable;
- (d) record of transactions with the bank;
- (e) register of transaction in securities; and
- (f) record of the meetings of the board of directors.

(2) The books of account and other records to be maintained under sub-rule (1) shall be preserved for a period of not less than five years.

17. Periodical reports to shareholders, etc.- (1) Every investment company shall transmit to its shareholders.-

- (a) an annual report, together with a copy of the balance sheet and income and expenditure account and the auditor's report, not less than ^{30[21]}(twenty one) days before the date of the general meeting at which it is to be laid before the shareholders; and
- (b) a six-month report, within ^{31[22]}(sixty days) of the end of each half-year.

(2) Such report, so far as may be applicable, shall be in accordance with ^{32[23]}(requirements set out in the second schedule to the these rules), and shall contain a 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 cost and at market), ^{33[24]}and the percentage in relation to its own assets and the paid -up capital of the company whose securities are owned.

(3) The statement of income and expenditure of the investment company shall include a statement of income and expenditure of the investment adviser in relation to the investment company.

(4) A copy of the annual report referred to in sub-rule (1)

^{30[21]} Amended by Notification SRO 29(I)/99 dated 14-1-1999

^{31[22]} Amended by Notification SRO 29(I)/99 dated 14-1-1999

^{32[23]} Amended by Notification SRO 29(I)/99 dated 14-1-1999

^{33[24]} Omitted by Notification No. SRO 553(I)/84, dated 13-06-1984

shall, within the time specified therein, be furnished to the Authority together with a statement containing the following information in respect of the investment company as at the end of the year:-

- (a) Total number of security holders.
- (b) Particulars of persons holding five per cent or more of the securities of the company at any time during the year.
- (c) Names and number of securities held by directors and officers of the company.
- (d) Any security of any other issuer sold and then bought during any six-month period.
- (e) Particulars of the personnel (executive, research and other) of the investment company.
- (f) Remuneration paid to the investment adviser.
- (g) Particulars of the personnel (executive, research and others) of the investment adviser.
- (h) Fee paid to the auditors.
- (i) The date, names of persons attending and minutes of each meeting of the board of directors.
- *(j) Omitted.
- *(k) Omitted.

^{34[25]}(5) Every investment company shall, as and when required by the Authority by order in writing and within such time as may be specified therein, furnish to the Authority the information regarding the sale price and the capital gain or loss in respect of each security purchased and sold.

³⁵[(6) Every investment company shall furnish to the stock exchange, where the securities of the company are listed, the Commission and any association of self-regulatory organization, or as directed by the Commission, within fourteen days of the last day of the preceding month, information, as on last date of the preceding month, on the net asset value of securities issued by it, the net assets have been computed in the manner prescribed in clause (e) of rule (2).]

^{34[25]}Added by Notification SRO 635(i)/84, dated 11.7.84

³⁵ Inserted by SRO No.46(1)/2001 dated 25th January 2001

CHAPTER III

REGULATION OF THE BUSINESS OF INVESTMENT ADVISERS

18. No person to commence business without registration.- No person shall commence business as an investment adviser unless such person is registered with the Authority under these rules.

19. Eligibility for registration.- Any person proposing to commence business as an investment adviser shall be eligible for registration under these rules if it fulfils or complies with following conditions or requirements, namely:-

- (a) that such person is registered as a company under the Companies Ordinance, 1984 (XLVII of 1984)^{36[26]} and has capital of not less than twenty million rupees:
Provided that an existing investment adviser shall raise its capital to a minimum level of twenty million rupees within a period of three years.";
- (b) that no director, officer or employee of such company has been convicted of fraud or breach of trust.
- (c) that no director, officer or employee of such company has been adjudicated as insolvent or has suspended payment or has compounded with his creditors;
- (d) that the directors of such company are, to the satisfaction of the Authority, persons of means and integrity and have special knowledge of the matters which the company may have to deal with as an investment adviser; *and
- ^{37[27]}(e) that such a person furnishes an undertaking, within ninety days of the grant of a certificate of registration, that the investment adviser shall furnish evidence to the satisfaction of the Authority that the personnel employed by it for executive,

^{36[26]} Substituted by Notification SRO 29(I)/99 dated 14-1-1999

^{37[27]} Amended by Notification SRO 29(I)/99 dated 14-1-1999

research or other related functions possess sufficient educational qualifications and professional experience to manage funds for the investment companies and rendering advisory services.";

20. **Registration.**- (1) Any person who is eligible for registration under rule 19 as an investment adviser may make an application in Form III to the Authority for registration under these rules.

(2) An application under sub-rule (1) shall, besides the other documents referred to in Form III, *be accompanied by:-

^{38[28]}a) an undertaking that the company will at all times maintain a net capital balance in the capital account of an amount which is not less than one and a half per cent of the paid-up capital; and

^{39[29]}b) receipt evidencing a fee of twenty-five thousand rupees as application process fee."

(3) The Authority, if it is satisfied after such enquiry and after obtaining such further information as it may consider necessary,-

- (i) that the applicant is eligible for registration ; and
- (ii) that it would be in the interest of the capital market so to do, may grant a certificate of registration to such person in Form IV.

21. **Maintenance of books of accounts etc.**- (1) Every investment adviser shall maintain such books of accounts and other records as shall depict a true and fair picture of its state of affairs, including-

- (a) journals, cash book and other records of original entry forming the basis of entry in any ledger;
- (b) ledgers (or other comparable record) reflecting asset, liability, income and expense;

^{38[28]} Inserted by Notification SRO 29(I)/99 dated 14-1-1999

^{39[29]} Inserted by Notification SRO 29(I)/99 dated 14-1-1999

- (c) ledgers (or other comparable record) showing securities in the portfolio;
 - (d) record of transactions with banks;
 - (e) record of the meetings of the board of directors; and
 - (f) original record of all reports, analysis and memoranda containing investment advice distributed.
- (2) Such books of accounts and other records shall be preserved for period of not less than five years.

22. Submission of annual report to Authority.- Every investment adviser shall submit to the Authority an Annual report, together with a balance-sheet and income and expenditure account and the auditor's report, within six months of the close of its year of account.

23. Enquiry.- (1) The Authority may cause an enquiry to be made by any person appointed in this behalf into the affairs of any investment adviser registered under these rules or any of its directors, managers or other officers.

(2) Where an enquiry under sub-rule (1) has been undertaken every director, manager or other officer of the investment adviser to which or to whose director, manager or other officer the enquiry relates and every other person who has had any dealing with such investment company, investment adviser, director, partner, manager or officer shall furnish such information in his custody or power or within his knowledge relating to, or having bearing on the subject-matter of the enquiry as the person conducting the enquiry may by notice in writing require.

(3) The person conducting an enquiry under sub-rule (1) may call for, inspect and seize books of account and documents in possession of any such investment adviser or person.

24. Cancellation of registration.- (1) Where the Authority is of the opinion that an investment adviser has contravened any provision, or has otherwise failed to comply with any requirement, of the Ordinance or of any rule or direction made or given thereunder, the Authority may, if it considers necessary in the public interest so to do by order in writing,-

- (a) cancel the registration of the investment adviser; or

- (b) remove the investment adviser from the office of investment adviser of an investment company:

Provided that no such order shall be made except after giving the investment adviser an opportunity of being heard.

(2) An investment adviser removed from office under clause (b) of sub-rule (1), shall not be entitled to or be paid any compensation or damages for loss of termination of office.

(3) An investment adviser of an investment company who is removed from office under clause (b) of sub-rule (1) shall not be appointed to such office of that company until after the expiration of a period of five years from the date of such removal.

(4) Where the investment adviser of an investment company is removed from that office under clause (b) of sub-rule (1) no director or officer of the investment adviser shall hold the office of director of the investment company or any other office connected with the conduct or management of the affairs of the investment company, until after the expiration of a period of five years from the date of such removal.

(5) Where the investment adviser is removed from office under clause (b) of sub-rule (1) the Authority may, by order in writing, appoint a person, hereinafter referred to as the Administrator, to manage the affairs of the investment company subject to such terms and conditions as may be specified in the order.

(6) The Administrator shall receive such remuneration from the investment company as the Authority may determine.

(7) The management of the affairs of the investment company shall, on and from the date of appointment of the Administrator, vest in him.

(8) If at any time it appears to the Authority that the purpose of the order appointing the Administrator has been fulfilled, it may permit the investment company to appoint another person to the office of investment adviser; and, on the appointment of such investment adviser, the Administrator shall cease to hold office.

THE **FIRST SCHEDULE

FORM I

[See rule 5 (1)]

**FORM OF APPLICATION FOR REGISTRATION AS AN
INVESTMENT COMPANY**

TO

· The Corporate Law Authority,
Government of Pakistan,
Islamabad.

Dear Sir,

We hereby apply for the registration of
(Name of Investment Company)
under rule 5 of the Investment Companies and Investment Advisers
Rules, 1971.

2. An undertaking (in original) from the investment adviser in
terms of rule 5(2) of the aforesaid Rules and four copies of each of
the following documents are enclosed:-

- (i) Memorandum and Articles of Association.
- (ii) Investment Advisory Contract.
- (iii) Custodian Agreement.
- (iv) Underwriting Agreement.

3. We hereby undertake to take all steps necessary to have the
securities issued by us listed on a stock exchange.

4. Necessary information required in the annex to this form is
furnished. We undertake to keep the information up-to-date at all
times.

Yours faithfully,

Signature of the Secretary or
a director of the applicant company.

* Substituted by Notification No. 1196(I)/83, dated 20-12-1983

** Substituted by Notification.SRO 29(I)/99 dated 14-1-1999

"THE SECOND SCHEDULE

[See rule 17(2)]

DISCLOSURE REQUIREMENTS FOR INVESTMENT COMPANIES

1. General

- (1) Annual report must contain all the information required in this Schedule. Interim reports must at least contain the statement of assets and liabilities and the investment portfolio. Where the investment company has paid or proposes to pay an interim dividend, the amount of dividend should be disclosed.
- (2) All reports must contain comparative figures for the previous period except for the investment portfolio.
- (3) The items listed under the statement of assets and liabilities, income statement, distribution statement, statement of movements in reserves and the notes to the accounts, where applicable, must be disclosed. It is, however, not mandatory to adopt the format as shown or to disclose the items in the same order.

2. Statement of assets and liabilities.

The following must be separately disclosed, namely:-

- (i) total value of investments;
- (ii) bank balances;
- (iii) preliminary and floatation costs;
- (iv) dividends and other receivable;
- (v) bank loan and overdrafts or other forms of borrowings;
- (vi) dividend payable;
- (vii) total value of all assets;

- (viii) total value of all liabilities; and
- (ix) net asset value.

3. Income statement.

- (1) Total investment income net of withholding tax, broken down by category.
- (2) Total other income, broken down by category.
- (3) Element of income and capital gains.
- (4) An itemized list of various costs which have been debited to the scheme including,--
 - (a) fees paid to the investment adviser;
 - (b) remuneration of the custodian;
 - (c) amortization of formation costs; director's fee and remuneration;
 - (d) safe custody and bank charges; auditor's remuneration;
 - (e) borrowing expenses; legal and other professional fees; and
 - (f) any other expense borne by the company.
- (5) Taxes.
- (6) Amounts transferred to and from reserves.
- (7) Net income to be carried forward for distribution.

4. Distribution statement.

- (1) Amount brought forward at the beginning of the period.
- (2) Net income for the period.
- (3) Interim dividend and date of distribution.
- (4) Final dividend per share.
- (5) Undistributed income carried forward.

5. Statement of movements in reserves.

- (1) Net asset value per share as at the beginning of the

- period.
- (2) Net asset value per share as at the end of the period.
 - (3) Any item resulting in an increase or decrease in net asset value of the share including, -
 - (i) surplus or loss on sale of investments;
 - (ii) exchange gain or loss;
 - (iii) unrealized appreciation or diminution in value of investments; and
 - (iv) net income for the period less distribution.
 - (4) Amounts transferred to and from the revenue account.

6. Notes to the accounts.

The following matters shall be set out in the notes to the accounts.

(1) Principal accounting policies:

- (a) The basis of valuation of the assets of the company including the basis of valuation of unquoted and unlisted securities;
- (b) the revenue recognition policy regarding dividend income and other income;
- (c) foreign currency translation, if any;
- (d) the basis of amortization of formation costs;
- (e) taxation; and
- (f) any other accounting policy adopted to deal with items which are judged material or critical in determining the transactions and in stating the disposition of the investment company.

Note.- Any changes to the above accounting policies and their financial effects upon the accounts should also be disclosed.

(2) Transactions with connected persons:

The following transactions should be disclosed, namely:-

- (l) Details of all transactions entered into during the period between the company and the investment

adviser, or any entity in which these parties or their connected persons have a material interest; and

- (2) name of any director of the investment adviser or any connected person if such a person becomes entitled to profits from transactions in shares or from management of the company and the amount of profits to which such person becomes entitled.
- (3) Borrowings:
 - (1) State whether the borrowings are secured or unsecured and the duration of the borrowings.
 - (2) Contingent liabilities and commitments of the company.
 - (3) If the free negotiability of any asset is restricted by statutory or contractual requirements, this must be stated.

7. Contents of the auditors' report.

The report of the auditor should state --

- (1) whether in the auditor's opinion, the accounts prepared for that period have been properly prepared in accordance with the relevant provisions of the rules;
- (2) without prejudice to the foregoing, whether in the auditor's opinion, a true and fair view is given of the disposition of the company at the end of the period and of the transactions of the scheme of the period then ended;
- (3) if the auditor is of the opinion that proper books and records have not been kept by the company or the accounts prepared are not in agreement with the company's books and records, that fact; and
- (4) if the auditor has failed to obtain all the information and explanations which, to the best of his knowledge and belief, are necessary for the purpose of the audit, that fact.

8. Investment portfolio.

- (1) Number or quantity of each holding together with the description and market value.
- (2) The total investment stated at cost.
- (3) The value of each holding as a percentage of the total investments.
- (4) Statement of movements in portfolio holdings since the end of the preceding accounting period.

9. Performance table.

(1) A comparative table covering the last three financial years and including, for each financial year, at the end of the financial year.--

- (a) total net asset value; and
- (b) net asset value per share.

(2) A performance record over the last ten financial years; or if the company has not been in existence during the whole of that period in which it has been in existence, showing the earnings per share and dividend distribution during each of those years."

(Syed Samsamul Haq)
Joint Secretary

Annex to Form I

1. Name, address and telephone number(s) of the Company
2. Date and place of incorporation
3. Names and addresses of directors, distinguishing between promoter directors and other directors
4. Whether any director has been convicted of fraud or breach of trust.
5. Whether any director has been adjudicated as insolvent or has suspended payment or has compounded with his creditors.
6. Names and addresses of officers and employees.
7. Whether any officer or employee has been convicted for fraud or breach of trust.
8. Whether any officer or employee has been adjudicated as insolvent or has suspended payment or has compounded with his creditors.
9. Names of the directors, officers and employees of the investment company and those of the investment adviser thereof who are members of a stock exchange.
10. Director's interest, direct or indirect in any other investment company.
11. Previous experience of the promoters/directors in the investment field.
12. The financial standing of the promoters/directors (Attach proof, if any).
13. (a) Authorised capital of the company.
(b) Part of such capital proposed to be raised through public offer.

14. Name, address and telephone number of the investment adviser.

.....

15. Name and address of the custodian.

.....

16. Name and address of the underwriter.

.....

17. Financial standing and resources of the underwriter.

.....

FORM II
[See rule 5(3)]

**CERTIFICATE OF REGISTRATION AS IN INVESTMENT
COMPANY
CORPORATE LAW AUTHORITY**

Islamabad, the _____ 19__

The Corporate Law Authority having considered the application for registration under rule 5 of the Investment Companies and Investment Advisers Rules, 1971, by.....(Name of the Investment Company) and being satisfied that the said.....(Name of the Investment Company) is eligible for registration and that it would be in the interest of the capital market so to do, hereby grants, in exercise of the powers conferred by rule 5 of the Investment Companies and Investment Advisers Rules, 1971, registration to..... (Name of the investment company) subject to the conditions stated herein below or as may be prescribed or imposed hereafter.

2. The draft agreement between..... (Name of the investment company) and (Name of the investment Adviser) is approved subject to the following conditions:-

3. The appointment of (Name of custodian) is hereby approved subject to the following conditions:-

4. The appointment of

* Substituted by Notification No. 1196(I)/83, dated 20-12-1983

.....
(Name of the investment adviser)
is hereby approved subject to the following conditions:-

Signature of the officer.

FORM III

[See rule 20 (1)]

**FORM OF APPLICATION FOR REGISTRATION AS INVESTMENT
ADVISER**

TO

*The Corporate Law Authority,
Government of Pakistan,
Islamabad.

Dear Sir,

We hereby apply for the grant of registration of
.....(Name of Investment
adviser)

under rule 20 of the Investment Companies and Investment
Advisers Rules, 1971.

2. Four copies of the Memorandum and Articles of
Association are enclosed.

3. We hereby undertake to maintain at all times a net
capital balance in the capital account of an amount which is not
less than one lac rupees.

4. Necessary information required in the annex to this form
is furnished. We undertake to keep this information up-to-date at
all times.

Yours faithfully,

Signature of the Secretary or
a director of the applicant.

Annex to Form III

1. Name, address and telephone number(s) of applicant.
2. Names and addresses of directors.
3. Whether any director has been convicted of fraud or breach of trust.
4. Whether any director has been adjudicated as insolvent or has suspended payment or has compounded with his creditors.
5. Names and addresses of officers and employees.
6. Whether any officer or employee has been convicted of fraud or breach of trust.
7. Whether any officer or employee has been adjudicated as insolvent or has suspended payment or has compounded with his creditors.
8. Whether any director or officer has any interest in any investment company.
9. What is the financial standing of the directors.
10. Give a brief description of the kind of investment advisory services proposed to be provided, the organizational set up, previous professional experience of directors / officers, etc.

FORM IV

[see rule 20 (3)]

**CERTIFICATE OF REGISTRATION AS AN
INVESTMENT ADVISER**

*CORPORATE LAW AUTHORITY

Islamabad, the 19

The Corporate Law Authority having considered the application for registration under rule 20 of the Investment Companies and Investment Advisers Rules 1971/- by.....(Name of adviser) and being satisfied that the said (Name of adviser) is eligible for registration and that it would be in the interest of the capital market so to do, hereby grants, in exercise of the powers conferred by rule 20 of the Investment Companies and Investment Advisers Rules, 1971, registration to(Name of adviser) subject to the condition stated herein below or as may be prescribed or imposed hereafter.

.....
Signature of the officer

* Substituted by Notification No. 1196(I)/83, dated 20-12-1983