



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

No.NBFCD/MF /50/2010

January 20, 2010

Circular No. 3 of 2010

SUBJECT: CLARIFICATION REGARDING CIRCULAR NO. 01 OF 2009

In light of the queries and suggestions received from different Asset Management Companies (AMCs) and the various discussions held with the Mutual Funds Association of Pakistan ("MUFAP"), the Commission deems it appropriate and expedient to issue certain clarifications in respect of Circular No. 01 of 2009 dated January 6, 2009.

Therefore, in exercise of the powers of the Commission conferred under Section 282B (3) of the Companies Ordinance, 1984, the following clarifications are hereby issued with respect to Circular No. 01 of 2009:-

1. In the process of arriving at minimum provisioning against non-performing debt securities as per the timeline given on Page 1 of 2 of Annexure II to Circular 01 of 2009, an AMC may exercise discretion with respect to the timing for creating the requisite provision such as immediately on the day of classification as non-performing or spreading it over the number of days, as deemed appropriate in the best interest of unit holders. However, the minimum provision on effective day shall be in accordance with the schedule given on Page 1 of 2 of the Annexure II to Circular No. 01 of 2009.
2. Where a debt security immediately preceding its classification as non-performing is valued at a discount to its outstanding principal amount, such discount may be accounted for while arriving at the minimum provision. However, if any such discount exceeds the requisite provisioning, the excessive discount shall not be written back and debt security shall be carried at the existing value upon classification as non-performing.



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3. Where a debt security earlier classified as non-performing subsequently performs as per the original repayment terms and all the arrears of interest and principal are duly received, such debt security shall immediately be re-classified as performing and the provision made against such security shall be written back. The condition of receipt of next two installments for re-classification of non-performing security as performing is only applicable in case of rescheduled/restructured debt securities.

4. An AMC shall not provide for against a performing debt security. However, MUFAP shall have the discretion to apply maximum mark-up of upto 500bps to the calculated yield of any specific debt security after taking into account the potential credit risk of any particular performing debt security or considering any unusual factor/event associated with the issuer or issue in order to ensure consistent and transparent valuations for entire mutual fund industry. Such factors/events may include following:

- Issuer of the performing debt security has defaulted on its other financial obligations.
- Rating of the performing security has been significantly down graded in a short time span.
- Breach of covenants relating to the performing debt security.
- Deteriorating operating, financial and cash flow position of the issuer.

Such factors/events shall be duly documented/noted in the decision taken by MUFAP while adjusting valuation of such securities.

This circular shall come into force with immediate effect.

SALMAN ALI SHAIKH
Commissioner (SCD)

Distribution

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