



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

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REQUIREMENTS FOR INVESTMENT BY CLOSED-END SCHEMES IN ITS OWN CERTIFICATES AND SUBSEQUENT RESALE OF SUCH CERTIFICATES

In exercise of the powers conferred under section 282B(3) of the Companies Ordinance, 1984 read with Regulation 55(11) of the Non Banking Finance Companies and Notified Entities Regulations, 2008 the Securities and Exchange Commission of Pakistan ("the Commission") hereby specifies the following requirements for closed-end scheme ("scheme") for investment in its own certificates (hereinafter referred to as "repurchase") and for subsequent resale (hereinafter referred to as "resale") of such certificates.

1. REQUIREMENTS AND PROCEDURE FOR REPURCHASE OF CERTIFICATES:

A scheme may repurchase its own certificates from the secondary market up to twenty percent of its issued capital subject to the following conditions:

- i. Repurchase of certificates of the scheme shall not be effected if the price of the certificates of the scheme quoted on the stock exchange(s) on which the scheme is listed, equals or exceeds the Net Asset Value (NAV) of the scheme;
- ii. The Asset Management Company (AMC) on behalf of the scheme shall develop a repurchase program that shall be approved by at least three fourth of the members of the Board of Directors ("Board"). The repurchase program shall *inter alia* specify:
 - eligible discount range for repurchase i.e. percentage difference in market value of certificates of the scheme compared to the NAV of the scheme;
 - maximum number of certificates to be repurchased;



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

- repurchase period not exceeding three months and which shall not be extended or rolled over;
 - sources of funds available for repurchase of certificates;
 - justification for the repurchase, and
 - effect of the repurchase on the financial position of the scheme.
- iii. The Board shall have the discretion to permit the AMC that it may not effect the repurchase of the certificates of the scheme as per the approved repurchase program if the discount as reflected in the quoted price is less than the eligible discount range. The same shall clearly be disclosed in the repurchase program;
- iv. The Board may delegate powers to the Investment Committee for effecting the repurchase in accordance with the repurchase program and in light of the prevailing market conditions and investment considerations;
- v. The AMC on behalf of the scheme shall inform in writing, the stock exchange(s) on which the scheme is listed, the trustee of the scheme and the Commission about the decision of the Board regarding repurchase of certificates of the scheme on the day the decision is made.
- vi. The AMC on behalf of the scheme shall within (3) days of obtaining approval of its Board publish the complete details of the repurchase program ("Public Announcement") and the Net Asset Value per certificate of the business day preceding the date of the Public Announcement in at least two daily newspapers, one each in Urdu and English languages, having wide circulation in the federal capital, all the provincial capitals and major cities of the country. The Public Announcement shall clearly specify that the AMC managing the scheme, its directors and employees or the trustee of the scheme are not eligible to sell certificates under the repurchase program. It shall also be clearly indicated in the Public Announcement that any repurchases under the repurchase program shall be



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

made through the stock exchange(s) on which the scheme is listed and in accordance with the securities laws and other exchange requirements;

- vii. The copy of Public Announcement shall also be sent through courier or registered mail to all certificate holders of the scheme at their addresses available in the register, to the stock exchange (s) on which the scheme is listed, the trustee of the scheme and the Commission on the date of publication of Public Announcement.
- viii. The AMC on behalf of the scheme shall repurchase certificates of the scheme from secondary market only through the automated trading system of the stock exchange on which the scheme is listed through a Purchase Agent appointed by the AMC managing the scheme for this purpose. The Purchase Agent shall be a corporate brokerage house holding a valid broker registration certificate from the Commission, not being an associated company or associated undertaking of the AMC. To effect repurchase of the certificates of the scheme, the AMC shall execute an agreement with the Purchase Agent that clearly states the role and responsibilities of both the parties to the agreement;
- ix. The Agreement with the Purchase Agent appointed for the repurchase shall include as an obligation of the Purchase Agent not to sell on his own account under the repurchase program. An additional obligation of the Purchase Agent under the Agreement shall be to make necessary arrangements for the repurchase on all the stock exchange (s) on which the scheme is listed;
- x. The AMC on behalf of the scheme shall send notice to the stock exchange (s) on which the scheme is listed, the trustee of the scheme and the Commission at least one day before commencement of repurchase of certificates of the scheme in accordance with the repurchase program. Such notice shall also contain particulars of the Purchase Agent appointed by the AMC managing the scheme and through whom the repurchase shall be effected. The notice so sent shall be immediately announced by the stock exchange on its website, through notices, etc.;



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

- xi. In addition to the above notice, the AMC managing the scheme shall provide the Commission an undertaking that it meets all the requirements of the repurchase laid down and that the said repurchase is not in contravention of any of the applicable laws, rules, regulations, approvals, contracts, agreements or any obligations of the scheme or the AMC managing the scheme;
- xii. The daily repurchase volume of certificates of a scheme shall not be higher than 1% of the issued certificates of the scheme. Furthermore, daily bid(s) shall be made in accordance with the following:
- (a) bid(s) shall not be made during first half hour and last half hour of each trading session; and
 - (b) size of each bid shall not exceed 10% of the certificates to be purchased on a single day.
- xiii. For accounting purposes, the investment made in its own certificates by a scheme shall be treated as a contra account to the certificate holders fund (capital);
- xiv. The certificates repurchased by the scheme shall be held in a CDC account in the name of the trustee of the scheme;
- xv. AMC managing the scheme shall not charge any management fee for repurchase made in the certificates of the scheme;
- xvi. AMC on behalf of the scheme shall not borrow for the purpose of re-purchase of certificates of the scheme;
- xvii. The certificates held by a scheme on book closure shall not be entitled to any cash dividend. Any certificates allotted as fully paid bonus certificates in respect of the repurchased certificates of the scheme shall be treated as repurchased certificates;



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

- xviii. The AMC on behalf of the scheme shall inform the stock exchange(s) on which the scheme is listed, the trustee of the scheme and the Commission about the number of certificates repurchased on the day of closing of purchase period.

2. REQUIREMENTS AND PROCEDURE FOR RESALE OF CERTIFICATES

A scheme may resale its own certificates repurchased under a repurchase program in the secondary market subject to the following conditions:

- i. The scheme shall hold the certificates so purchased for a minimum period of one month of completion of the repurchase period or the last repurchase made by the scheme, whichever is earlier, before it can resell these certificates in secondary market;
- ii. The resale of certificates of the scheme shall require approval of at least three fourth members of the Board, which shall indicate the number of certificates to be resold, minimum price and justification ("resale program"). The AMC on behalf of the scheme shall resale certificates of the scheme only through the automated trading system of the stock exchange on which the scheme is listed;
- iii. The resale price of its own certificates repurchased by a scheme shall not be less than the average repurchase price of these certificates (after taking any dilution effect, if any);
- iv. For accounting purposes the certificates resold shall result in a reduction in the contra account to certificate holders fund (capital).

3. GENERAL REQUIREMENTS

- i. The scheme shall neither be a capital protected scheme nor shall it have limited life;
- ii. The Board shall not approve repurchase and resale of certificates of the scheme and the AMC shall not effect a repurchase or a resale program during the pendency of any of the following, namely:-



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

- a) Voluntary revocation of the scheme by AMC;
 - b) Revocation proceedings commenced by the Commission;
 - c) At least six months prior to the notice of the meeting of the certificate holders for considering conversion of the scheme into open-end scheme. Further, the Board on behalf of the scheme shall not apply or initiate voluntary delisting or voluntary revocation of the scheme within a period of six months of the close of the Purchase Period;
 - d) Inquiry or investigation by the Commission or the State Bank of Pakistan; and
 - e) Proceedings relating to mismanagement or change of management of the scheme.
- iii. The Board of the AMC managing the scheme shall not approve repurchase of certificates of the scheme before expiry of six months from the date of the Public Announcement for the last approved repurchase program or the completion of the purchase period, whichever is later;
- iv. The AMC managing the scheme, its directors and employees and the trustee of the scheme shall not sell or buy certificates to or from the scheme under the repurchase program and resale program;
- v. The AMC on behalf of the scheme shall submit a weekly report to the stock exchange on which the scheme is listed, the Commission and the trustee stating the maximum number of shares authorized to be repurchased or resold, cumulative number of certificates purchased or resold, price-wise breakup of the certificates purchased or resold and the Net Asset Value of the scheme;
- vi. The AMC on behalf of the scheme shall disclose in the quarterly, half yearly and annual accounts of the scheme, month-wise break-up of certificates repurchased and/or resold and weighted average price of the repurchase and/or resale;



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

- vii. The AMC on behalf of the scheme shall not repurchase or resale certificates of the scheme during the closed period that shall be 15 days prior to announcement of the half-yearly accounts and one month prior to announcement of the annual accounts and ending on day of announcement of half-yearly and annual accounts or when the scheme or the AMC managing the scheme is in possession of material, non-public, price-sensitive information concerning the scheme;
- viii. The AMC on behalf of the scheme shall not issue further capital, except bonus certificates unless all the repurchased certificates are disposed of in accordance with a resale program. Further such repurchased certificates shall not be disposed of by the AMC on behalf of the scheme through negotiated deals.
- ix. Where the Commission is satisfied on its own motion, or on the basis of any information received by it, that it is necessary and expedient so to do:
- (a) in the interest of the certificate holders of the scheme;
 - (b) in the interest of investors or the market generally; or
 - (c) to prevent the abuse of law or the process laid down in this Circular;

it may issue directions to the Scheme, the AMC managing the scheme or any of its directors, the trustee of the scheme, the Purchase Agent, or any other person, including but not limited to:

- (i) stopping the AMC on behalf of the scheme at any stage from making the repurchase;
- (ii) to do or desist from doing such acts as the Commission may determine; and
- (iii) carry out such steps as are necessary to rectify the situation.



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

This Circular shall be effective, immediately. In case of any clarification with respect to this circular, all AMCs and MUFAP shall approach the Commission.

This Circular is issued with approval of the Competent Authority.


4/5/09
Asif Jalal Bhatti
Director (NBFCN)

Distribution

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