SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
****

Islamabad the 21st November, 2008

NOTIFICATION

S.R.O. 1203(I)/2008.- In exercise of the 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 notifies the following Non-Banking Finance Companies and Notified Entities Regulations, 2008 for the regulation of NBFCs carrying out leasing, investment finance services, housing finance services, asset management services and investment advisory services and their business activities and notified entities being managed by the aforementioned NBFCs.

[PART I

Title and definitions][1]

1. Short title and commencement.- (1) These Regulations shall be called the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

(2) They shall come into force at once.

2. Definitions.- (1) In these Regulations, unless there is anything repugnant in the subject or context,-

(i) "Asset Management Company" means an NBFC licensed by the Commission to provide asset management services;

[omitted][2]

[(iii) "Borrower" means a person who has obtained Finance from an NBFC][3];

[omitted][4]

[(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

1 Substituted for the words "CHAPTER – I General" vide SRO 1160(I)/2015 dated 25 November 2015

2 Deleted the words "(ii) "Bankers' Acceptance" means an instrument drawn on a scheduled bank by a person ordering and accepted by the drawee bank to pay to the order of a person a specified sum of money, either on demand or at a future specified date;" vide SRO 1160(I)/2015 dated 25 November 2015

3 Substituted for the words "(iii) "Borrower" includes a person on whom an NBFC has taken an Exposure during the course of its business" vide SRO 1160(I)/2015 dated 25 November 2015

4 Deleted the words "(iv) "Certificate of Deposit" means a certificate of investment or a certificate of deposit issued for raising funds for a specified time by a Leasing Company, Investment Finance Company or a Housing Finance Company;" vide SRO 1160(I)/2015 dated 25 November 2015

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;][5]

(vi) "Closed End Fund" means an Investment Company or a Closed End Scheme;

[(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;][6]

(viii) "Constitutive Documents" means the trust deed, Offering Document and other principal documents governing the formation of a Closed End Scheme or an Open End Scheme, including all related material agreements;

[(ix) "Consumer Financing" means the financing allowed to individuals for meeting their personal, family or household needs.][7]

(x) "Consumer Leasing" means any leasing allowed to individuals for meeting their personal, family or household needs;

[(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:

5 Substituted for the words "(v) "Collective Investment Scheme" means a Closed End Fund and an Open End Scheme;" vide SRO 1160(I)/2015 dated 25 November 2015

6 Substituted for the words "(vii) "Closed End Scheme" means a scheme constituted by way of trust to raise funds through issue of certificates to the public for investing in securities including money market instruments for a definite or indefinite period which does not continuously offer certificates entitling the holder of such certificates, to receive, on demand, proportionate share of the net assets of the Closed End Scheme;" vide SRO 1160(I)/2015 dated 25 November 2015

7 Substituted for the words "(ix) "Consumer Financing" means the financing allowed to individuals for meeting their personal, family or household needs and includes:

(a) credit cards mean cards which allow a customer to make payments on credit and supplementary credit cards shall be considered part of the principal borrower; and

(b) personal loans obtained by individuals for the payment of goods, services and expenses;" vide SRO 1160(I)/2015 dated 25 November 2015

(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;][8]

[(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.][9]

[(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;][10]

[(xiia) "Distributor" means a person who performs distribution function for Collective Investment Schemes;][11]

(xiii) "Eligible Investor" means a person offering minimum of [three][12] million rupees for investment and who furnishes an undertaking to the NBFC that such investor understands the risks involved in the management of portfolio on discretionary or non-discretionary basis:

Provided that in the case of an entity such an undertaking shall be made by the board of directors or trustees as the case may be;

[(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:

8 Substituted for the words "(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 Collective Investment Scheme 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;" vide SRO 1160(I)/2015 dated 25 November 2015

9 Inserted vide SRO 1160(I)/2015 dated 25 November 2015

10 Substituted for the words "(xii) "Discretionary Portfolio" means a portfolio of securities managed by an NBFC under an agreement entered into with a client on a duly notarised stamp paper of applicable value and whereby investment decisions are made and executed by the NBFC on behalf of its client;" vide SRO 1160(I)/2015 dated 25 November 2015

11 Inserted vide SRO 1160(I)/2015 dated 25 November 2015

12 Substituted for the word "five" vide SRO 1160(I)/2015 dated 25 November 2015

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;][13]

[(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;][14]

[(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

13 Substituted for the words "(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: 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 Facility without the benefit of revaluation reserves;" vide SRO 1160(I)/2015 dated 25 November 2015

14 Substituted for the words "(xv) "Exposure" includes Facility and subscription to or investment in equity securities, debt instruments or securities, units or certificates or shares of a Collective Investment Scheme, money-market placements, deposits, Certificate of Deposits, CFS, forward contracts, derivatives and credit cards, 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) a Facility provided to financial institutions through REPO transactions with underlying statutory liquidity requirement eligible securities;

(c) letters of credit established for the import of plant and machinery; and

(d) deposits of less than ninety days." Vide SRO 1160(I)/2015 dated 25 November 2015

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;][15]

(xvii) "Fit and Proper Criteria" means the criteria specified in Schedule IX;

(xviii) "Form" means the Forms annexed to these Regulations;

(xix) "FSV**"** means the forced sale value which reflects the possibility of price fluctuations and can be realized by selling the mortgaged, pledged, leased or collaterally held assets in forced or distressed sale conditions;

(xx) "Government Securities**"** include monetary obligations of the Federal Government or a Provincial Government or of a corporation wholly owned or controlled, directly or indirectly, by the Federal Government or a Provincial Government and guaranteed by the Federal Government and any other security as the Federal Government may, by notification in the Official Gazette, declare, to the extent determined from time to time, to be a Government Securities;

(xxi) "Housing Finance Company" means an NBFC licensed by the Commission to provide housing finance services;

(xxii) "Investment Advisor" means an NBFC licensed by the Commission to provide investment advisory services;

(xxiii) "Investment Company" means a company registered with the Commission in accordance with these Regulations;

(xxiv) "Investment Finance Company" means an NBFC licensed by the Commission

15 Substituted for the words "(xvi) "Facility" includes financing under a system which is based on participation in profit and loss, 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 or any other mode, guarantees, indemnities, letters of guarantee, indemnity, letter of credit and any other obligation, whether fund based or non-fund based;" vide SRO 1160(I)/2015 dated 25 November 2015

to provide investment finance services;

(xxv) "Leasing Company" means an NBFC licensed by the Commission to provide leasing;

[(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;][16]

[(xxvii) "Margin Financing" means Margin Financing as defined in sub-rule (k) of rule 2 of Securities (Leveraged Markets and Pledging) Rules, 2011;][17]

[(xxviia) "Micro Financing" means Finance provided to a poor person or microenterprise;

(xxviib) "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);][18]

[(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;

(xxviiia) non-deposit taking NBFC" means a Lending NBFC which does not have a permission to raise Deposits;][19]

16 Substituted for the words "(xxvi) "Liquid Assets" means the assets which are readily convertible into cash and includes encashment or realizable value of Government Securities, bank deposits, shares of listed companies which are actively traded on the stock exchange, NIT units, certificates or shares of a Closed End Fund, Certificate of Deposit issued by DFIs or NBFCs and Certificates of Musharika issued by Modarabas rated at least 'A' by a credit rating agency registered with the Commission, listed TFCs, Sukuks and 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;" vide SRO 1160(I)/2015 dated 25 November 2015

17 Substituted for the words "(xxvii) "Margin Loan" means a loan made by an Investment Finance Company to partly finance investment by the client in marketable securities, which shall be held by the Investment Finance Company as collateral, the amount invested by the client being the "margin" against the loan;" vide SRO 1160(I)/2015 dated 25 November 2015

18 Inserted vide SRO 1160(I)/2015 dated 25 November 2015

19Substituted for the words "(xxviii) "Medium and Long Term Facilities" means a Facility with maturities of more than one year;" vide SRO 1160(I)/2015 dated 25 November

[(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;][20]

(xxx) "Notified Entity" means a company or class of companies or corporate body or trust or any other entity or person notified by the Federal Government in the official Gazette;

(xxxi) "Offering Document" means a published document containing information on a Collective Investment Scheme to invite the public for purchase of certificates or units in that scheme;

[(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;][21]

(xxxiii) "Ordinance" means the Companies Ordinance, 1984 (XLVII of 1984);

(xxxiv) "Other Form of Security" includes hypothecation of stock (inventory), assignment of receivables, lease Rentals, contract receivables[etc.][22];

[(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;][23]

(xxxv) "Readily Realizable Assets**"** include Liquid Assets and stocks pledged with the NBFCs and are in their possession, with 'perfected lien' duly supported with complete documentation;

(xxxvi) "Regulations" means the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and the Schedules and Forms attached to it;

(xxxvii) "Rental" include lease Rentals, Rentals in respect of housing finance facilities,

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20 Substituted for the words "(xxix) "Non-Discretionary Portfolio" means a portfolio of securities managed by an NBFC under an agreement entered into with the client on a duly notarised stamp paper of applicable value whereby investment decisions are executed by the NBFC on written instructions of the client;" vide SRO 1160(I)/2015 dated 25 November 2015

21 Substituted for the words "(xxxii) "Open End Scheme" means a scheme constituted by way of a trust deed that continuously offers for sale its units as specified in the Constitutive Document that entitle the holder of such units on demand to receive his proportionate share of the net assets of the scheme less any applicable charges;" vide SRO 1160(I)/2015 dated 25 November 2015

22 Inserted vide SRO 1160(I)/2015 dated 25 November 2015

23 Inserted vide SRO 1160(I)/2015 dated 25 November 2015

hire purchase installments or any other amount received by NBFC from Borrower against the grant of a Facility;

(xxxviii) "Rules" mean the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003;

(xxxix) "Schedule" means the Schedule to these Regulations;

(xl) "Secured" means Exposure backed by Tangible Security and any Other Form of Security with appropriate margins (in cases where margin has been specified by the Commission appropriate margin shall at least be equal to the specified margin);

[omitted][24]

[omitted][25]

(xliii) "Tangible Security**"** means Readily Realizable Assets, mortgage of land, plant, building, machinery and any other fixed assets;

(xliv) "TFC" means debt instrument issued for the purpose of raising funds in the form of redeemable capital;

[(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;][26]

(xlv) "Underwriting Commitments**"** mean commitments given by NBFCs to the limited companies at the time of new issue of equity or debt instrument, that in case the proposed issue of equity or debt instrument is not fully subscribed, the un-subscribed portion will be taken up by them (NBFCs);

(xlvi) "Unlisted Debt Security" means a debt security not listed or quoted on a stock exchange; and

(xlvii) "Unlisted Equity Security" means an equity security not listed or quoted on a stock exchange.

[(xlviii) "Unsecured" means the Exposure without any security or collateral.][27]

(2) Words and expressions used but not defined in these Regulations shall have the

24 Deleted the words "(xli) "Short Term Facilities" mean a Facility with maturities up to one year;" vide SRO 1160(I)/2015 dated 25 November 2015

25 Deleted the words "(xli) "(xlii) "Subordinated Loan" means an unsecured loan extended by the sponsors to the Borrower which is subordinate to the claim of an NBFC taking Exposure on the Borrower and documented by a formal subordination agreement between the provider of the loan and the Borrower;" vide SRO 1160(I)/2015 dated 25 November 2015

26 Inserted vide SRO 1160(I)/2015 dated 25 November 2015

27 Inserted vide SRO 1160(I)/2015 dated 25 November 2015

same meaning unless contrary to the context as assigned to them in the Ordinance, Rules and the Securities and Exchange Ordinance, 1969 (XVII of 1969) [, Securities Act, 2015 and][28] the Rules and Regulations made thereunder.

[PART II

General][29]

[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;][30]

[**4.** 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.][31]

[omitted][32]

[omitted][33]

28 Substituted for the word "and" vide SRO 1160(I)/2015 dated 25 November 2015

29 Substituted for the words "Chapter II Part-I General" vide SRO 1160(I)/2015 dated 25 November 2015

30 Substituted for the words "3. Application of this part.- The provisions of this part shall apply to the forms of business provided in clause (i) to (vii) of Section 282A (a) of the Ordinance." vide SRO 1160(I)/2015 dated 25 November 2015

31 Substituted for the words "4. Minimum equity requirement.- An NBFC licensed by the Commission to undertake any form of business as specified under section 282A shall, at all the times, meet the minimum equity requirement in respect of that form of business as provided in Schedule 1:

Provided that where an application is made by an NBFC for an extension of the time schedule prescribed in Schedule 1, the Commission may, after being satisfied and recording reasons in writing, extend the timeline for up to a maximum period of six months." Vide SRO 1160(I)/2015 dated 25 November 2015

32 Deleted the words "5. Limit on aggregate liabilities of an NBFC.- (1) Aggregate liabilities, excluding Contingent Liabilities and security deposits, of an NBFC shall not exceed seven times of its equity for the first two years of its operation and ten times of its equity in the subsequent years.

(2) Contingent Liabilities of an NBFC shall not exceed seven times of its equity for the first two years of its operation and ten times of its equity in the subsequent years. " Vide SRO 1160(I)/2015 dated 25 November 2015

33 Deleted the words "6. Internal audit function.– (1) An NBFC shall have an internal audit function, reporting directly to the audit committee of the board of the NBFC.

(2) The internal audit function may either be performed by creating an internal audit department or by outsourcing the function.

(3) The internal audit function shall be responsible for monitoring compliance with the Ordinance, Rules and these Regulations by establishing effective means of testing, checking and compliance of the policies and procedures framed by the board of the NBFC." Vide SRO 1160(I)/2015 dated 25 November 2015

7. Submission of information by the NBFC.– An NBFC shall submit such information including periodical statements, reports, statistics and data in such forms and manner and within such time as may be required by the Commission from time to time.

8. Code of conduct.– An NBFC shall acquire and maintain membership of such association(s) which have been constituted in consultation with the Commission and abide by the code of conduct prescribed by the said association(s).

[**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.][34]

10. Procedure for [ ][35]approval for appointment [or re-appointment][36] of directors and chief executives.- An NBFC shall follow the following procedure for obtaining approval of appointment [or re-appointment][37] or any change of its directors or chief executive, -

[(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;][38]

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34 Substituted the words "9. Prevention of NBFCs involvement in money laundering and other illegal trades.– (1) All NBFC shall ensure prevention of money laundering and other illegal trades and abide by such directives and circulars as may be issued by 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 accept deposits from an investor only after ensuring that an account has been opened in the name of the investor using the account opening form developed by the respective industry associations in consultation with the Commission;

(b) it shall determine the true identity of the prospective customer before extending its services and care shall be taken to identify ownership of all accounts and those using safe custody;

(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 money derived from illegal activities;

(e) it shall establish effective procedures for monitoring of Borrower 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/-.

(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." Vide SRO 1160(I)/2015 dated 25 November 2015

35 Deleted the word "prior" vide SRO 1160(I)/2015 dated 25 November 2015

36 Inserted vide SRO 1160(I)/2015 dated 25 November 2015

37 Inserted vide SRO 1160(I)/2015 dated 25 November 2015

38 Substituted for the words "(a) in the case of removal of its chief executive before the expiration of his term or where the chief executive decided to tender his resignation, the NBFC shall inform the Commission at least one month before the change:

Provided that in the case of removal of the chief executive before the expiration of his term the NBFC shall the furnish reasons to the Commission;

(b) not later than 10 days before the notice of meeting called for the election of directors or within 10 days of the occurrence of any casual vacancy submit an application for the appointment or change to the Commission;" vide SRO 1160(I)/2015 dated 25 November 2015

(c) the application shall be submitted in compliance with the requirements of Schedule IX and be accompanied by information and documents required therein; and

(d) any deficiency or shortcoming in the information or documents submitted by the NBFC to the Commission shall be rectified by the NBFC within 14 days of the issue of the letter by the Commission informing the NBFC of the deficiency or shortcoming:

Provided that where the NBFC does not remove the deficiency or shortcoming, the Commission may close the matter.

11. Fees applicable to an NBFC.- All fees which an NBFC or a Notified Entity is required to pay to the Commission [as specified in Schedule – II are non-refundable][39].

[PART III

Lending NBFCs][40]

12. Application of this Part.- The provisions of this part shall apply to Leasing Companies, Investment Finance Companies [, Discount Houses, Non-Bank Micro Finance Companies][41] and Housing Finance Companies.

[omitted][42]

[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;

39 Substituted for the words "are prescribed in Schedule – II" vide SRO 1160(I)/2015 dated 25 November 2015

40 Substituted for the words "PART – II Leasing, Investment Finance Services and Housing Finance Services" vide SRO 1160(I)/2015 dated 25 November 2015

41 Inserted vide SRO 1160(I)/2015 dated 25 November 2015

42 Deleted the words "13. Allocation of assets in case of multiple licensing.- An NBFC engaged in leasing, investment finance services or housing finance services or any combination thereof, shall invest at least twenty percent of its assets in each such form of business:

Provided that cash, bank balances and cash equivalent instruments of a maximum of thirty day term, investments made under Regulation 14(4)(i) and investments made in unquoted shares of any company in terms of Rule 7(2)(h) shall be excluded from calculating the percentage of allocation of assets of NBFC engaged in multiple forms of business:

Provided further that an NBFC shall comply with the requirement of this Regulation by 30th June 2009." Vide SRO 1160(I)/2015 dated 25 November 2015

(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.][43]

[**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

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43 Substituted for the words "14. Permission to issue of Certificates of Deposit by an NBFC licenced to provide leasing or investment finance services or housing finance services.- (1) A Leasing Company, Investment Finance Company or a Housing Finance Company may apply to the Commission for permission to issue Certificates of Deposit, after complying with the following conditions, namely:-

(a) that the NBFC is listed on a stock exchange and has been, as per the audited accounts, making profits for a period of at least two years:

Provided that an unlisted NBFC engaged in deposit raising shall get itself listed on a stock exchange by 30th June 2009:

Provided further that the requirement to list the NBFC on a stock exchange shall not apply to an NBFC which, -

(i) is raising deposits from financial institutions only;

(ii) is preparing its accounts in conformity with the provisions of the Ordinance, the Rules, these Regulations and making them available to the public;

(b) the operations of the NBFC and the conduct of its directors with respect to the NBFC has been in accordance with law;

(c) the NBFC has been assigned a credit rating of minimum investment grade from a credit rating agency registered with the Commission; and

(d) a disclosure statement setting out information about the product shall be submitted to the Commission along with application and a copy of such statement shall be made available free of cost at the registered and every other office of the NBFC:

Provided that an NBFC which is currently allowed to issue Certificate of Deposit shall develop and submit the statement to the Commission setting out the information within sixty days of the notification of these Regulations;

(2) An NBFC which is in compliance with the provisions of Regulation 14(1) shall make an application to the Commission along with the evidence of compliance with Regulation 14(1).

(3) If the Commission is satisfied that the NBFC fulfils the conditions prescribed in Regulation 14(1), it may give permission to such NBFC to issue Certificates of Deposit.

(4) An NBFC which has been given permission to issue Certificates of Deposit shall comply with the following conditions, namely:-

(a) the NBFC shall maintain the minimum investment grade rating and have it updated at least once every year during the term of the issue:

Provided that if the credit rating of the NBFC falls below the investment grade, the permission to issue Certificate of Deposit shall automatically stand cancelled with immediate effect and the NBFC shall immediately cease to issue further Certificate of Deposit or roll-over the existing certificates and the existing Certificate of Deposit shall be encashed as and when they become due:

Provided further that if the credit rating of the NBFC is subsequently upgraded to investment grade, it may apply to the Commission for a fresh permission for issuance of Certificates of Deposit;

(b) the NBFC shall publish its investment grade rating in financial statements, advertisements and brochures published in relation to the promotion of its business;

(c) the Certificate of Deposit issued by the NBFC shall be registered in the name of the person to whom it is issued;

(d) the maturity period of Certificate of Deposit shall not be less than thirty days:

Provided that a certificate shall be redeemable before its maturity period subject to the terms and conditions laid out in the deposit agreement or product disclosure statement;

(e) a Certificate of Deposit may be issued at fixed or floating rate of interest as specified in the product disclosure statement wherein the mechanism for determining the rate of interest shall also be disclosed;

(f) all amendments to the disclosure statement setting out information about the product shall be made with the prior written approval of the Commission;

(g) all advertisements for inviting general public for making investment in Certificates of Deposit shall contain the credit rating of the NBFC, the name of the rating agency, the date on which the credit rating was issued, expected rate of profit and tenor of the Certificate of Deposit and a copy of such advertisement shall be submitted to the Commission within three days from the date of issue;

(h) the deposits raised by the NBFC, from individual depositors including sole-proprietorships shall not exceed three times of the equity of the NBFC;

(i) at least 15 per cent of the 1[outstanding] funds raised through issue of Certificates of Deposit by the NBFC, excluding the Certificates of Deposit held by financial institutions, shall be invested in Government Securities 2[, or instruments or investments as notified by the Commission and 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 and the instruments or investments shall be] kept un-encumbered and disclosed separately in the annual and quarterly accounts of the NBFC; and

(j) the NBFC shall provide a return on the Certificate of 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 Regulation 14(4)(j)." vide SRO 1160(I)/2015 dated 25 November 2015

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.][44]

[**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.

44 Substituted for the words "15. Other Sources of raising Funds: An NBFC licensed to provide leasing, investment finance services or housing finance services may raise funds through, -

(a) commercial paper, any security or deposit of not less than thirty days maturity;

(b) foreign debentures whether short or long term;

(c) issuance of redeemable capital;

(d) lines of credit; and

(e) re-discount facility." Vide SRO 1160(I)/2015 dated 25 November 2015

(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.][45]

45 Inserted vide SRO 1160(I)/2015 dated 25 November 2015

16. Creation of reserve fund.– [A deposit taking lending][46] NBFC shall create a reserve fund wherein at least 20% of the after tax profits of the NBFC shall be credited till the time that the reserve fund equals the amount of the paid up capital of the NBFC and thereafter a sum not less than 5% of its after tax profits shall be credited to the reserve fund.

Explanation. - Issuance of bonus shares may be made from the reserve fund after appropriation made under Regulation 16 however the NBFC shall transfer further amounts to the reserve fund in order to comply with the requirements of Regulation (16).

[**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 hosing 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

46 Substituted for the word "an" vide SRO 1160(I)/2015 dated 25 November 2015

(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'.][47]

[**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

47 Substituted for the words "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 30% of the equity of an NBFC (as disclosed in the latest financial statements):

Provided that the maximum outstanding fund based Exposure does not exceed 20% of the equity of an NBFC.

(2) The total outstanding Exposure (fund based and non fund based) by a NBFC to any group shall not exceed 50% of the equity of an NBFC (as disclosed in the latest financial statements):

Provided that the maximum outstanding fund-based Exposure does not exceed 35% of the equity of an NBFC.

(3) Exposure under this Regulation shall be calculated as under, -

(a) 100% of the deposits placed with the lending NBFC shall be deducted from Exposure;

(b) 90% of the following shall be deducted from Exposure, -

(i) deposits with another financial institution under perfected lien;

(ii) encashment value of Government Securities and National Saving Scheme securities deposited by the Borrower as collateral; and

(iii) face value of Special US Dollar Bonds converted at inter-bank rate into Pak Rupee equivalent, deposited by the Borrower as collateral;

(c) 85% of the unconditional financial guarantees, payable on demand, issued by commercial 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) 50% of listed Term Finance Certificates held as security with duly marked lien shall be deducted:

Explanation.- The TFCs to qualify for this purpose should have been rated at least 'A' or equivalent by a credit rating agency registered with the Commission; and

(e) the following weightage will be applicable in respect of placements with financial institutions, -

(i) 25% weightage on Exposure to financial institutions with 'AAA' Rating.

(ii) 75% weightage on Exposure to financial institutions rated at least 'A'." vide SRO 1160(I)/2015 dated 25 November 2015

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.][48]

[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.][49]

48 Inserted vide SRO 1160(I)/2015 dated 25 November 2015

49 Substituted for the words "18. Limit on money market placements.- An NBFC shall make clean money market placement only with financial institutions and its aggregate Exposure shall not exceed its equity:

Explanation. For the purpose of this Regulation "clean money market placement" means Exposure without taking any security or collateral." Vide SRO 1160(I)/2015 dated 25 November 2015

[**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.][50]

[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

50 Inserted vide SRO 1160(I)/2015 dated 25 November 2015

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.]51

20. Consumer Financing by an NBFC licenced to provide leasing or investment finance services.- A Leasing Company or Investment Finance Company may undertake Consumer Financing provided that such NBFC carries out Consumer Finance business in accordance with the requirements specified by the Commission.

[**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

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51 Substituted for the words "19. Restrictions on certain types of transactions. – An NBFC shall not, -

(a) provide a Facility against shares and TFCs issued by it;

(b) provide a Facility against Unlisted Debt Security and Unlisted Equity Security;

(c) provide a Facility to any company against shares and TFCs of that company or group companies of that company;

(d) provide a Facility against shares in physical form of a listed company;

(e) provide a Facility against unsecured TFCs, non-rated TFCs and TFCs rated below investment grade by a credit rating agency registered with the Commission;

(f) provide a Facility against shares of the sponsor directors (issued in their own name or in the name of their close relative) of banks and NBFCs;

(g) hold shares on aggregate basis, whether as pledgee, mortgagee or absolute owner, of an amount exceeding 20% of the paid-up share capital of that company or 20% 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.

(h) provide a Facility to its chief executive, directors, individuals or firms or companies in which it or any of its directors is interested as a partner or director or guarantor, major shareholders and their close relatives, firms or companies without the approval by the majority of the directors of that NBFC:

Provided that the director interested in seeking such approval shall not take part in the proceeding of the approval of the Facility:

Provided further that where the board of the NBFC grants approval under Regulation 19(h) the Facility extended shall be at arms length basis and on such terms and conditions as are applicable to other customers of the NBFC:

Provided further that an NBFC shall ensure that the appraisal standards are not compromised and market rates are used and a Facility extended to employees of an NBFC as a part of their compensation package under Employees Service Rules shall not fall in this category;

(i) allow Facility on the guarantee of its chief executive, directors or major shareholders including their close relatives; and

(j) allow a Facility to any person for speculative purposes." Vide SRO 1160(I)/2015 dated 25 November 2015

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 exceed two million rupees	Accounts duly signed by the Borrower.
(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.][52]

52 Substituted for the words "21. Minimum conditions for providing Facility. - (1) An NBFC shall while providing a Facility to a Borrower which exceeds one million rupees, give due weight to the credit report relating to the Borrower or its group obtained from a Credit Information Bureau.

(2) If the credit report of Credit Information Bureau indicates overdue or default by a Borrower, the NBFC shall not extend any Facility:

Provided that where a Credit Information Bureau report indicates minor overdue of credit card or default due to disputed amounts an NBFC may grant a Facility to the Borrower after recording proper justification for granting the Facility and all such approvals shall be reviewed by the board of directors on a quarterly basis.

(3) While granting a Facility to a Borrower who is not an individuals the NBFC shall obtain copy of accounts relating to the business of such Borrower for analysis and record in the following manner, 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.
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%.

(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 exceed two million rupees	Accounts duly signed by the Borrower.
(c) where Exposure exceeds two million rupees but does not exceed ten million rupees.	Accounts duly signed by the Borrower and counter signed by: (i) a chartered accountant; or (ii) a 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 ten 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.

(4) 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.

(5) An NBFC shall, before providing any Facility (including renewal, 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.

(6) An NBFC shall ensure that the information requested in the basic fact sheet is provided by the Borrower under his seal and signature." Vide SRO 1160(I)/2015 dated 25 November 2015

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.][53]

53 Substituted for the words "22. Margin against Facility. - (1) Save as otherwise provided in Regulation 22(2), an NBFC shall apply such margin requirements on Facility as approved by their board of directors.

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

Shares of listed companies	Exposure against the shares of listed companies shall be subject to minimum margin of 30% of their current market value. However, an NBFC may set higher margin requirements keeping in view other factors. An NBFC shall monitor the margin on at least weekly basis and shall take appropriate action for top-up and sell-out on the basis of the credit policy approved by their board and prior written authorization from the Borrower.
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 investment grade credit rating 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 upto 50% provided that NBFCs hold at least 20% of the guaranteed amount in the form of Liquid Assets as security." Vide SRO 1160(I)/2015 dated 25 November 2015

[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 Intuitions shall not exceed Rs. 700,000.][54]

[**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.][55]

[**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.

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54 Substituted for the words "23. Linkage between Equity of the Borrower and total Exposure from financial institutions.– (1) An NBFC while taking an Exposure shall ensure that the total Exposure availed by the Borrower from financial institutions does not exceed 10 times the Equity of the Borrower as disclosed in the financial statements of the Borrower.

Explanation.- For the purpose of Regulation 23(1) Subordinated Loans shall be counted as Equity of the Borrower and an NBFC shall state the conditions of the Subordinated Loan in the Offer Letter.

(2) The agreement for providing a Subordinate Loan shall state that the repayment of the Subordinated Loan will be subject to the prior approval of the NBFC.

(3) The Subordinated Loan shall be disclosed in the annual audited financial statements of the Borrower." Vide SRO 1160(I)/2015 dated 25 November 2015

55 Substituted for the words "24. Financial indicators of the Borrowers.- (1) Subject to Regulation 24(2), an NBFC shall at the time of allowing fresh Exposure, enhancement or renewal ensure that the current assets to current liabilities ratio of the Borrower is not lower than 1:1:

Provided that an NBFC in exceptional cases may relax the aforementioned ratio up to 0.75:1 if it is satisfied that appropriate risk control measures have been put in place and recording its reasons on the approval form and the exception approval file to be maintained at its central credit office containing all such approvals.

(2) Regulation 24(1) shall not apply to, -

(a) Facility granted to financial institutions with minimum investment grade rating by a credit rating agency registered with the Commission;

(b) fully secured Exposure against Liquid Assets held as collateral;

(c) export finance; and

(d) finance provided to ginning and rice husking factories." Vide SRO 1160(I)/2015 dated 25 November 2015

(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.][56]

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56 Substituted for the words "25. Classification and Provisioning for non-performing assets. - (1) A Leasing Company, Investment Finance Company and Housing Finance Company shall observe the criteria for classification of its assets and provisioning as provided in Schedule X till June 30, [2012] and Schedule XI with effect from [July 01, 2012]56.

(2) In addition to time based criteria provided in Schedule X and Schedule XI subjective evaluation of performing and non-performing advances, loans and lease port-folio 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 Facility shall be changed only when the terms and conditions of the rescheduled or restructured Facility 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 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 in cash.

(4) An NBFC shall ensure that the status of classification and provisioning of a rescheduled or restructured non-performing Facility is not changed in its reports to the Commission merely due to rescheduling or restructuring of a Facility and rescheduled or restructured loans 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 Facility the NBFC shall classify the loan or lease 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 or XI.

(6) At the time of rescheduling or restructuring an NBFC shall reconsider and re-examine the viability of the project or business and shall accordingly secure its interests.

(7) An NBFC shall classify its loans, advances or lease portfolio and make provisions in accordance with the time-based criteria prescribed in Schedule X till June 30, [2012] and Schedule XI with effect from July 01, [2012]56:

Provided that before making any provision an NBFC may avail the benefit of leased assets, or additional collaterals held against lease, or collaterals held against advances or loans, it can consider the realizable value of mortgaged or pledged or leased or collaterally held assets for deduction from the outstanding principal amount of loans or advances or lease against which such assets are leased, mortgaged, pledged or collaterally held:

Explanation:- The value of the mortgaged, pledged assets, other than Liquid Assets, to be considered for this 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 underlying collateral or leased 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 assets shall be revalued and the adjustment factor of 50% shall be applied for all subsequent years.

The FSV of the collateral 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.

(8) Non-performing Facility against which security or incase of lease, additional security is not available, or where mortgaged, pledged or leased assets have not been valued and verified by external auditors, such Facility shall continue to be classified and provided for according to the time-based criteria prescribed in Schedule X till June 30, [2012]56 and Schedule XI with effect from July 01, [2012]3.

(9) NBFCs shall observe the following criteria for determining the realizable value of mortgaged, pledged, leased or collaterally held assets, namely:-

(a) only assets having registered mortgage, equitable mortgage (where NOC for creating further charge has not been issued by NBFC) and pledged or collaterally held assets shall be considered;

(b) assets having pari-passu charge shall be considered on proportionate basis;

(c) hypothecated assets and assets with second charge or floating charge shall not be considered;

(d) valuations shall be carried out by an independent professional valuer listed on the panel of valuers maintained by the Pakistan Banks Association or the Leasing Association of Pakistan;

(e) the valuers while assigning any values to the mortgaged, pledged, leased or collaterally held assets, 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;

(f) the realizable value of mortgaged, pledged, leased or collaterally held assets determined by the valuers must take into account the amount that can be realized from the asset if sold in a forced or distressed sale condition;

(g) the valuers shall in their report explain the assumptions, calculations, formula and method adopted in determination of the realizable values;

(h) valuations shall be conducted at least once in three years:

Provided that, except for a Housing Finance Company, if a valuation is older than three years, a fresh re-valuation shall be done failing which the valuation shall be taken as nil.

(10) The categories of mortgaged, pledged, leased or collaterally held assets which are considered for valuation and the discounting factors to be applied shall be as under and no other assets shall be taken into consideration:

[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.][57]

26. Reversal of Provisioning.- Where there is a cash recovery, other than rescheduling or restructuring, [Lending][58] NBFC may reverse specific provisioning held against classified assets to the extent that the remaining outstanding amount of the classified asset is covered by the minimum provisioning required under that particular classified category of assets.

[omitted][59]

[omitted][60]

[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

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(a) Liquid Assets: Valuation of Liquid Assets shall be determined by the NBFC and verified by the external auditors.

Explanation:- Values of pledged shares of a listed company shall be taken at their market value on the balance sheet date and as per method, if any, specified by Institute of Chartered Accountants of Pakistan.

(b) Pledged Stocks: In the case of pledged stocks of perishable and non-perishable goods,-

(i) the FSV provided by valuers shall not be more than six months old, at each balance sheet date;

(ii) the goods shall be perfectly pledged;

(iii) the operation of the godowns shall be in control of the NBFC;

(iv) regular and valid insurance and other records should be available; and

(v) in case of perishable goods, the valuers should also give the approximate date when these are expected to be of no value.

(11) The values of mortgaged, pledged, leased or collaterally held assets determined by the valuers shall be subject to verification by the external auditors, who may reject cases of valuation, which in their opinion -

(a) do not appear to have been professionally carried out and values determined are unreasonable, or

(b) are not backed by valid documentation of mortgage, pledge, leased or collaterally held asset, and are not supported by legal opinion wherever required.

(12) 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 keeping in view the risk 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.

(13) An NBFC shall review, at least on a quarterly basis, the recovery of their loans, advances and lease 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.

(14) 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." Vide SRO 1160(I)/2015 dated 25 November 2015

57 Inserted vide SRO 1160(I)/2015 dated 25 November 2015

58 Substituted by the word "an" vide SRO 1160(I)/2015 dated 25 November 2015

59 Deleted the words "27. Overdue, default and recovery thereof. - (1) An NBFC shall provide the Commission, -

(a) a list of its defaulters on the prescribed format on quarterly basis; and

(b) a list of rescheduled and restructured Facility on prescribed format.

Explanation:- For the purpose of Regulation 27(1) a person shall be declared a defaulter by an NBFC if such person fails to pay of or liquidate any written obligation towards any NBFC and such failure has continued for a period of twelve months from the date on which the person was required to make the payment or to do or perform the act.

(2) An NBFC shall nominate an officer as recovery officer or create a department for recoveries, depending upon the number of defaults.

(3) An NBFC shall set quarterly recovery targets as a percentage of the overdue obligations and shall be monitored by the board." Vide SRO 1160(I)/2015 dated 25 November 2015

60 Deleted the words "Leasing" vide SRO 1160(I)/2015 dated 25 November 2015

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.][61]

61 Substituted for the words "28. Terms and conditions applicable to Leasing Companies.- A Leasing Company 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, namely: -

(a) a Leasing Company, if undertaking the business of leasing only, shall invest at least seventy per cent of its assets in the business of leasing:

Provided that cash, bank balances and cash equivalent instruments of a maximum of thirty day term, investments made under Regulation 14(4)(i) and investments made in unquoted shares of any company in terms of Rule 7(2)(h) shall be excluded to calculate investment in leasing business for purposes of this Regulation;

(b) a Leasing Company shall not engage in the following leasing operations, -

(i) land; and

(ii) residential buildings and apartments;

(d) the total investment of a Leasing Company in shares, equities or scrips shall not exceed fifty per cent of the equity of the Leasing Company and the shares shall be valued at the cost of acquisition for the purpose of calculating the Exposure of the Leasing Company under this clause;

(e) a Leasing Company shall not own shares, equities or scrips of any one company in excess of ten per cent of its own equity or of the issued capital of that company, whichever is lower:

Provided that this restriction shall not be applicable to investments made by a Leasing Company in its own subsidiaries and long term strategic investments out of surplus equity;

Explanation:- For the purpose of this Regulation the expression "share, equities or scrips" include listed shares, modaraba certificates, units and certificates of Collective Investment Schemes.

Investment Finance Services

29. Terms and conditions applicable to Investment Finance Companies.- An Investment Finance Company shall, subject to the conditions specified in the Rules, these Regulations and any other conditions that may be specified by the Commission, undertake the following activities or functions, namely:

(a) in case of money market activities, -

(i) issue Certificates of Deposit or commercial paper of not less than thirty days maturity subject to such conditions as may be specified by the Commission;

(ii) discount or trade in commercial paper issued by its client, Government Securities, promissory notes, bills, Bankers' Acceptances and other money market instruments, acting either as a broker or acting on its own account; and

(iii) assist in the issue of commercial paper, including introduction of companies to the money market, preparation of documentation, distribution and market making; and

(b) in case of capital market activities, -

(i) invest in listed securities, both equity and non-equity instruments;

(ii) provide professional analysis to institutional and individual investors, for remuneration, on investing in, purchasing or selling of securities either directly in writing or through publications;

(iii) underwrite stocks and shares, instruments of redeemable capital and other negotiable term obligations of corporations and financial institutions, acting singly or jointly as manager, underwriter or distributor for issues;

(iv) take an active part in all stages of preparation for public issues or private placement;

(v) manage portfolios of securities including stocks, shares, pension fund, provident fund, participation term certificates and other negotiable and debt instruments for Eligible Investor both individual and institutional clients on a discretionary as well as non-discretionary basis as specified in Regulation 34;

(vi) provide Margin Loans to individual and institutional investors; and

(vii) undertake brokerage business subject to clause (n) of sub-rule (2) of Rule 7 of Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003:

Provided that an Investment Finance Company shall not raise deposits in any form including certificate of deposits from any source;

(c) in case of project financing activities, -

(i) 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;

(ii) guarantee and counter-guarantee loans and obligations, including establishment of documentary credits; and

(iii) open letters of credit for their corporate clients for the import of machinery installation, expansion, balancing, modernization and replacement;

(d) in case of corporate finance services, -

(i) 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;

(ii) assist companies in private placement of debt and equity, domestically or overseas;

(iii) act as adviser to companies in corporate or financial restructuring as well as in the preparation of resource mobilization plans;

(iv) act as adviser to companies in mergers, acquisition and divestitures;

(v) assist companies with cash management systems;

(vi) prepare feasibility, market or industry studies for companies, both domestic and overseas;

(vii) assist to raise equity for new and existing companies, by acting as financial agent;

(viii) 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) placing or execution of orders for purchase or sale of securities;

(III) receipt of dividends and other income on securities;

(IV) execution of voting and other rights in connection with securities;

(V) holding securities on behalf of their clients; and

(VI) transacting aforesaid activities through nominees, agents, or attorneys;

(ix) act as nominees, agent, attorney, administrator, executor or trustee for clients;

(x) 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; and

(e) in case of general activities, -

(i) 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;

(ii) 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;

[omitted][62]

[omitted][63]

[omitted][64]

[omitted][65]

[omitted][66]

(iii) provide safe deposit vaults to clients;

(iv) handle payments and collections for clients;

(v) extend Secured loans and advances; and

(vi) provide discounting services." Vide SRO 1160(I)/2015 dated 25 November 2015

62 Deleted the words "30. Limits for investment in equities.- (1) An Investment Finance Company shall not make aggregate investment in listed equity securities, both in the ready as well as in futures market, exceeding fifty percent of its own equity:

Provided that investment in equity securities of any company shall not exceed ten percent of the paid-up capital of the investee company or ten per cent of its own equity, whichever is less and the shares acquired in excess of ten per cent limit, due to the Underwriting Commitments, will be sold off within a period of seven months from the date of acquisition of such shares:

Provided further that this restriction shall not be applicable to investments made by a Investment Finance Company in its own subsidiaries and long term strategic investments out of surplus equity:

Provided further that Investment Finance Companies shall comply with this condition latest by June 30, 2011 on a diminishing balance basis:

Explanation:- For the purpose of Regulation 30(1) "investments in equity securities" shall be valued at cost for the purpose of calculating Exposure of the Investment Finance Company.

(2) Total spread transactions by an Investment Finance Company shall not exceed two times of its equity:

Explanation:- For the purpose of Regulation 30(2) "spread transactions" mean transactions where shares of one company are purchased in one settlement date and simultaneously sold in another settlement date.

(3) Total investment by an Investment Finance Company in cash settled futures, exchange traded options and index futures shall not exceed fifty percent of its equity and its Exposure in single scrip shall not exceed ten percent of its equity:

Provided that there shall be a maximum loss limit as determined and recorded in writing by the board of directors of an NBFC on each contract and thereafter the Investment Finance Company shall immediately square its position:

Explanation: For the purpose of Regulation 30(3) Exposure shall be calculated on the basis of nominal value of the contract." Vide SRO 1160(I)/2015 dated 25 November 2015

63 Deleted the words "31. Total investment in reverse repo and Continuous Funding System in the capital market.- The total investment by an Investment Finance Company in reverse repo and CFS shall not exceed two and a half times of its equity and Exposure in a single security in CFS and reverse repo shall not exceed twenty per cent of its equity:

Provided that reverse repo and CFS shall only be carried out in CFS eligible and Government Securities.." Vide SRO 1160(I)/2015 dated 25 November 2015

64 Deleted the words "32. Underwriting Commitments.- All Underwriting Commitments by an Investment Finance Company shall be fully backed by available funds, firm standby lines of credit or other funding arrangements." Vide SRO 1160(I)/2015 dated 25 November 2015

65 Deleted the words "33. Conditions for Margin Loans.- The grant of Margin Loans by an Investment Finance Company to its clients shall be in accordance with the following conditions, -

(a) the aggregate of Margin Loans shall not exceed fifty per cent of the equity of the Investment Finance Company;

(b) the margin to be maintained by the client with the Investment Finance Company shall not be less than thirty per cent of the loan amount outstanding, calculated as residual value obtained after deducting the loan amount outstanding from the market value of the portfolio;

(c) Margin Loans to a single client or associated company or undertaking shall not exceed ten per cent of the equity of the Investment Finance Company; and

(d) Margin Loans shall be approved in accordance with a written pre-defined policy approved by the board of the Investment Finance Company and shall not be granted to any employee, officer, director, shareholder having beneficial ownership of ten percent or their close relatives having beneficial ownership of more than ten per cent in the paid-up capital of the Investment Finance Company, whether directly or indirectly:

Explanation:- For the purpose of Regulation 33(d) "directly or indirectly" means through close relatives, companies controlled by them, affiliates, subsidiaries, or by way of acting in concert with others." Vide SRO 1160(I)/2015 dated 25 November 2015

66 Deleted the words "34. Managing discretionary and non-discretionary client portfolio.- (1) An Investment Finance Company 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 an Investment Finance Company 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 Discretionary Portfolio and Non-Discretionary Portfolio of client are managed separately from other activities;

[omitted][67]

[PART IV][68]

Asset Management Services, Investment Advisory Services and Collective Investment Schemes

36. Application of this part.- The provisions of this part shall apply to Asset Management Companies, Collective Investment Schemes managed by such companies and Investment Advisors.

(d) make investment or disinvestments decision independently and on merit;

(e) only 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) In the event of any dispute, the Investment Finance Company shall produce evidence of compliance under Regulation 34 (1)." Vide SRO 1160(I)/2015 dated 25 November 2015

67 Deleted the words "Housing Finance Services 35. Terms and conditions for undertaking housing finance services.- (1) A Housing Finance Company may provide loans to individuals against the property for the purchase of a residential house or apartment or land including the Facility availed for the purpose of making improvements in house, apartment or land:

Provided that the Housing Finance Company shall arrange for the insurance of mortgaged property from approved insurance companies:

Provided further that a Housing Finance Company owning real estate shall arrange to dispose it off with in a period of three years commencing from 30th June 2008 or within the period extended by the Commission in specific circumstances.

(2) A Housing Finance Company shall carry out the housing finance services subject to the conditions mentioned below and any other conditions that may be specified by the Commission, -

(i) it shall invest at least seventy per cent of its assets in the business of housing finance, unless it is licensed by the Commission to undertake any other form of business in addition to housing finance services;

Provided that cash, bank balances and cash equivalent instruments of a maximum of thirty day term, investments made under Regulation 14(4)(i) and investments made in unquoted shares of any company in terms of Rule 7(2)(h) shall be excluded to calculate investment in housing finance business for purposes of this Regulation;

(ii) total investment of the Housing Finance Company in shares, equities or scrips shall not exceed fifty per cent of its own equity and the shares shall be valued at cost of acquisition for the purpose of calculating the Exposure of the Housing Finance Company under this clause:

(iii) a Housing Finance Company shall not own shares, equities or scrips of any one company in excess of ten per cent of its own equity or of the issued capital of that company, whichever is lower:

Provided further that this restriction shall not be applicable to investments made by a Housing Finance Company in its own subsidiaries and long term strategic investments out of surplus equity;

(iv) the maximum per party limit in respect of housing finance by the Housing Finance Company shall be Rs.20 million;

(v) the total monthly amortization payments of all consumer loans inclusive of housing finance shall not exceed 60% of the net disposable income of the prospective Borrower;

(vi) Facility may be advanced for the purchase of land, construction of houses or renovation of an existing house against the security of land with the legal title in the name of the customer;

(vii) housing finance facility shall be provided at a maximum debt-equity ratio of 85:15;

(viii) a Housing Finance Company may provide mortgage loans for up to a period of twenty years from the date of grant of licence by the Commission.

(ix) a Housing Finance Company shall ensure that a charge is created over every house financed by it by way of an equitable or a registered mortgage;

(x) a Housing Finance Company shall appoint a valuer who has been approved by the Commission to value property;

(xi) a Housing Finance Company shall appoint a lawyer to get the title documents of the property verified and the Housing Finance Company shall ensure that the lawyer submits a due diligence report to it in relation to verification of title of a property;

(xii) the management of the Housing Finance Company shall devise a mechanism to monitor conditions in the real estate market (or other relevant product market) at least on a quarterly basis and the Housing Finance Company shall ensure that its policies are aligned to current market conditions;

(xiii) a Housing Finance Company shall develop floating rate products for providing housing finance, thereby managing interest rate risk; and

(xiv) Housing Finance Companies shall develop in-house systems to stress test their housing portfolio against adverse movements in interest rates and also maturity mismatches:

Explanation.- For the purpose of this Regulation the expression "share, equities or scrips" include listed shares, modaraba certificates, units and certificates of Collective Investment Scheme." Vide SRO 1160(I)/2015 dated 25 November 2015

68 Substituted for the words "PART III" vide SRO 1160(I)/2015 dated 25 November 2015

37. Terms and conditions to undertake asset management services.- [(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.][69] [:

Provided that the aforesaid limit of three or lesser number shall not apply to an Index Scheme or a Capital Protected Scheme or any other category as specified by the Commission.][70]

(2) An Asset Management Company shall have at least one investment committee or it may have investment committees for various Collective Investment Schemes or various asset classes.

(3) The investment committee shall, -

(a) consist of relevant key personnel of the Asset Management Company including the chief investment officer and the respective fund manager and shall have a minimum of three members;

(b) be constituted and approved by the board of the Asset Management Company;

(c) be responsible to the chief executive of the Asset Management Company and the chief executive shall ensure that the committee functions effectively;

(d) have at least two-thirds of its members present prior to taking any investment related decision or decisions relating to the responsibilities of the investment committee:

Provided that if the quorum is not present due to an emergency the fund manager or the chief executive, in consultation with at least one other member of the investment committee, may take decisions and record in writing the decisions and the circumstances of the emergency and circulate the document to other members of the investment committee;

(e) act with due care, skill and diligence in carrying out its duties and responsibilities;

(f) ensure that investment decisions are consistent with the objectives and investment policy of the Collective Investment Scheme;

(g) ensure that investments do not deviate from the Constitutive Documents or these Regulations or directions of the Commission;

(h) develop and follow internal investment restrictions and policies;

(i) review the performance of the Collective Investment Scheme on a regular and timely basis;

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69 Substituted for the words "(1) An Asset Management Company shall appoint or designate a qualified individual as fund manager, who shall be responsible for the management of not more than three Collective Investment Schemes at a time, or such lesser number as may be specified by the Commission" vide SRO 1160(I)/2015 dated 25 November 2015

70 Inserted vide S.R.O. No. 814(I)/2011 dated September 05, 2011.

(j) ensure that proper record of meetings and investment decisions is maintained;

[(k) record and sign its decisions in line with guidelines and objective for investments and disinvestments separately for each Collective Investment Scheme; and][71]

(l) develop criteria for appointing a diverse panel of brokers and monitoring compliance thereof to avoid undue concentration of business with any single broker.

(4) A member of the investment committee shall not, -

(a) hold office as member of an investment committee of a Collective Investment Scheme managed by another Asset Management Company;

(b) hold any office including that of a director of another Asset Management Company; and

(c) engage in brokerage services.

(5) An Asset Management Company shall be eligible to provide asset management services for more than three Collective Investment Schemes if it fulfills the conditions specified by the Commission with respect to, inter-alia, –

(a) the minimum rating of the Asset Management Company;

(b) track record of the asset management services provided by it; [ ][72]

(c) the minimum rating and the performance of the Collective Investment Schemes for which it acted or is acting as a fund manager[; and][73]

[(d) Status of compliance of Asset Management Company and Collective Investment Schemes with applicable regulatory framework.][74]

(6) In the case of a Shariah Compliant and Islamic Collective Investment Schemes an Asset Management Company shall appoint a Shariah Advisor and comply with such requirements as may be specified by the Commission.

(7) An Asset Management Company shall not, -

(a) acquire the management of a Collective Investment Scheme, unless it has obtained the prior written approval of the Commission;

71 Substituted for the words "(k) record and sign its decisions along with rationale and objective for buying or selling each security and highlighting the limits including price, quantity, time period, etcetera, separately for each Collective Investment Scheme; and" vide SRO 1160(I)/2015 dated 25 November 2015

72 Deleted the words "and" vide SRO 1160(I)/2015 dated 25 November 2015

73 Substituted for the full stop "." Vide SRO 1160(I)/2015 dated 25 November 2015

74 Inserted vide SRO 1160(I)/2015 dated 25 November 2015

(b) pledge any of the securities held or beneficially owned by a Collective Investment Scheme except as allowed under these Regulations;

(c) accept deposits from a Collective Investment Scheme;

(d) make a loan or advance money to any person from the assets of the Collective Investment Scheme;

(e) participate in a joint account with others in any transaction on behalf of the Collective Investment Scheme, except for collection account of the Collective Investment Schemes managed by it;

(f) apply any part of the assets of Collective Investment Scheme to real estate;

(g) make any investment from the Collective Investment Scheme which will vest with the Asset Management Company or its group the management or control of the affairs of the investee company;

(h) enter, on behalf of a Collective Investment Scheme, into transactions with any broker that exceed [fifteen][75] per cent of the commission [payable][76] by a Collective Investment Scheme in any one accounting year[77][:

Provided that this restriction shall not apply to transactions relating to money market instruments or debt securities.]

(i) undertake brokerage services on stock exchanges or in the money market;

(j) enter, on behalf of the Collective Investment Schemes, into underwriting or sub-underwriting contracts;

[(ja) on behalf of Collective Investment Schemes, subscribe to an issue underwritten, co-underwritten or sub-underwritten by group companies of the Asset Management Company;] [78]

(k) maintain its own equity portfolio except for investments made by the Asset Management Company into the Collective Investment Schemes or pension funds managed by it or its subsidiary NBFCs as allowed under Rule 7(2)(h):

Provided that the existing Asset Management Companies shall comply with this requirement by 30th June 2009 [or such extended period as specified by the Commission, on reducing balance basis][79]; [ ][80]

75Replaced "thirty" vide S.R.O. No. 814(I)/2011 dated September 05, 2011.

76 Replaced "paid" vide S.R.O. No. 814(I)/2011 dated September 05, 2011.

77 Inserted vide S.R.O. No. 814(I)/2011 dated September 05, 2011.

78 Inserted vide S.R.O. No. 814(I)/2011 dated September 05, 2011.

79 Words added vide S.R.O.764 (I)/2009 dated September2, 2009. In terms of S.R.O. 944(I)/2009 dated October 29, 2009, the AMCs were required to dispose off equity portfolio by June 30, 2010 which is further extended to June 30,2011 vide SRO 655(I)/2010 dated July 13,2010.

(l) buy more than twenty five percent of the outstanding shares or certificates of the Closed End Fund managed by it[:][81]

[(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.][82]

(8) An Asset Management Company shall not open or close or arrange to open or close any account with a bank, broker or depository for the Collective Investment Scheme without the approval of its board.

[**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;

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80 Deleted the word "and" vide SRO 1160(I)/2015 dated 25 November 2015

81 Substituted for the full stop "." Vide SRO 1160(I)/2015 dated 25 November 2015

82 Inserted Vide SRO 1160(I)/2015 dated 25 November 2015

(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.][83]

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

83 Substituted for the words "38. Obligations of the Asset Management Company.- An Asset Management Company shall, -

(a) be obliged to manage the assets of the Collective Investment Scheme in the interest of the unit, certificate or share holders in good faith and to the best of its ability and without gaining any undue advantage for itself or any of its related parties including connected persons and group companies or its officers;

(b) 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;

(c) 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;

(d) 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;

(e) 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;

(f) within four months of closing of the accounting period of the Open End Scheme and Closed End Scheme transmit to the unit or certificate holders, 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;

(g) 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 to the unit or certificate holders, 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 Commission, subject to any conditions, may allow the Asset Management Company to transmit the said quarterly accounts to the unit or certificate holders by placing them on the Asset Management Company's 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;

(h) 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;

(i) 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;

(j) be obliged to obtain a 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;

(k) ensure ,where it delegates the function of distribution, that;

(i) the distributors to whom it delegates have acquired registration with the Mutual Funds Association of Pakistan as registered service providers and are maintaining the registration on an annual basis and are abiding by the code of conduct prescribed for them by Mutual Funds Association of Pakistan and all existing distributors shall acquire registration with Mutual Funds Association of Pakistan as registered services before the first day of March 2012;

(ii) the written contract with the distributors clearly states the terms and conditions for avoidance of frauds and sales based upon misleading information;

(l) be obliged to process payment instrument immediately on receipt of application;

(m) be obliged to provide such information and record to the trustee as may be necessary for the trustee to discharge obligations under these Regulations;

(n) manage the Collective Investment Scheme according to its Constitutive Documents, the rules, regulations, circular or directives issued by the Commission; and

(o) establish and maintain sufficient 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." Vide SRO 1160(I)/2015 dated 25 November 2015

(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.][84]

Collective Investment Schemes
Open End Scheme and Closed End Schemes

[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.][85]

84 Inserted vide SRO 1160(I)/2015 dated 25 November 2015

85 Substituted for the words "39. Appointment of trustee.- (1) 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.

[86]**[40. Eligibility requirements for registration.-** A person may apply to the Commission for registration to act as a trustee of an Open End Scheme or Close End Scheme under these Regulations if such person is,-

(a) a scheduled bank licensed under the Banking Companies Ordinance, 1962 (LVII of 1962) which has minimum AA- rating from a credit rating agency registered with the Commission, and has been in business for at least five years;

(b) a company, set up as a subsidiary by a scheduled bank having minimum AA- rating from a credit rating agency registered with the Commission;

(c) a foreign bank operating as a scheduled bank in Pakistan and operating as trustee internationally;

(d) a central depository company registered with the Commission;

(e) an Investment Finance Company which has minimum AA- rating from a credit rating agency registered with the Commission; or

(f) such other company as the Commission may specify through a circular issued under the Ordinance.

40A. Application procedure for registration.- (1) An application for registration to act as a trustee of an Open End Scheme or Close End Scheme shall be made to the Commission in Form V along with non-refundable fee as specified in Schedule II.

(2) The Commission, while considering the application for registration may require the applicant to furnish such other information or clarification as it deems appropriate.

(3) Any subsequent change in the information provided to the Commission at the time of filing of application under sub-regulation (1) shall be intimated to the Commission within a period of three working days from the date of such change.

40B. Grant of certificate of registration.- (1) The Commission while granting a

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(2) 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.

(3) The Commission, if deems appropriate, may accept the request of the Asset Management Company for appointment of trustee." Vide SRO 1160(I)/2015 dated 25 November 2015

86 Replaced the text "40. Conditions applicable to trustee.- (1) A trustee shall be, -

(a) a scheduled bank licensed under the Banking Companies Ordinance, 1962 (LVII of 1962) which has minimum A+ rating from a credit rating company registered with the Commission, and has been in business for at least five years;

(b) a trust company, set up as a subsidiary by a scheduled bank having minimum A+ rating from a credit rating company registered with the Commission;

(c) a foreign bank operating as a scheduled bank in Pakistan and operating as trustee internationally;

(d) a central depository company approved by the Commission;

(e) an Investment Finance Company which has minimum A+ rating from a credit rating company registered with the Commission;

(f) such other company as the Commission may specify through a circular issued under the Ordinance.

(2) In exercising its authority under Regulation 39 the Commission shall consider the availability of appropriate systems, business continuity plan, personnel, management and such other matters as the Commission deems appropriate.

(3) The trustee shall arrange for its annual system audit by an auditor and provide the report of such audit to the Commission and the concerned Asset Management Company, within four months of the close of the financial year of the trustee." vide S.R.O. No. 814(I)/2011 dated September 05, 2011.

certificate of registration to an applicant under sub-regulation (1) of Regulation 40A shall *inter-alia* take into account the following matters, namely:-

(a) the availability of appropriate systems, business continuity plan, personnel and management;

(b) the ability of the applicant to safeguard the interests of unit holders;

(c) earlier refusal, if any, by the Commission for registration of the applicant to act as a trustee;

(d) conviction or adverse finding by regulatory authorities against director(s) or key executives of the applicant in a criminal offences;

(e) the director(s) or key executives have been found guilty of regulatory offences;

[(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][87]

(f) any other matter as deemed necessary by the Commission.

(2) The Commission on being satisfied that the applicant is eligible for registration may grant a certificate of registration to the applicant in Form III subject to such additional conditions as it may deem necessary**.**

(3) All existing trustees of an Open End Scheme or Close End Schemes shall make an application to the Commission for registration as a trustee for an Open End Scheme or a Close End Schemes within ninety days of coming into force of this sub-regulation along with a non-refundable fee as specified in Schedule II.

(4) The certificate of registration shall remain valid for a period of three years from the date of registration unless it is cancelled or suspended earlier by the Commission.

40C. Renewal of Registration.- (1) A trustee of an Open End Scheme or a Closed End Scheme shall, one month prior to the date of expiry of its registration, apply to the Commission in Form VI for renewal of its registration along with a non-refundable fee as specified in Schedule II.

(2) The Commission upon being satisfied, after making such inquiry and obtaining such further information as it may consider necessary that the applicant is eligible for renewal of registration may grant a renewal of certificate of registration to the applicant in Form IV:

Provided that till such time that the registration is renewed, the existing registration shall be deemed valid for the purposes of these regulations unless the registered trustee fails to apply

87 Substituted for the word "and" vide SRO 1160(I)/2015 dated 25 November 2015

as specified in sub-regulation (1) of Regulation 40C.

(3) While granting renewal, the Commission may, in addition to the criterion laid down for grant of registration, also take in to account past performance of the trustee.

40D. Procedure where registration is not granted or renewed.- (1) The Commission, after giving a reasonable opportunity of hearing to the applicant, may refuse to grant or renew a certificate of registration if in the opinion of the Commission such applicant does not fulfill the requirements prescribe in these Regulations or where the Commission after taking in to account the facts, is of the view that the certificate of registration or renewal thereof shall not be granted.

(2) A trustee whose application for renewal of certificate of registration is refused by the Commission shall continue to act as a trustee for Open End Schemes or Closed End Schemes in which it is acting as trustee till the appointment of new trustee.]

41. Obligations of trustee of the Open End Scheme or Closed End Scheme.- A trustee shall, -

(a) take under its control all the property of the Open End Scheme or Closed End Scheme and hold it in trust for the unit or certificate holders in accordance with the Rules, Regulations and the provisions of the Constitutive Documents and the cash and registerable assets shall be registered in the name of, or to the order of, the trustee;

(b) be liable for any loss caused due to its willful acts or omissions or that of its agents in relation to any custody of assets or investment forming part of the property of the Open End Scheme or Closed End Scheme;

(c) ensure that the sale, purchase, issue and transfer of units or certificates affected by the Open End Scheme or Closed End Scheme are carried out in accordance with the provisions of the Constitutive Documents;

(d) ensure that repurchase, redemption and cancellation of units are carried out in accordance with the provisions of the Constitutive Documents;

(e) carry out the instructions of the Asset Management Company, in respect of investments unless they are in conflict with the provisions of these Regulations or the Constitutive Documents;

(f) ensure that the investment and borrowing limitations set out in these Regulations and the Constitutive Documents are complied with;

(g) ensure that the conditions under which the Open End Scheme or Closed End Scheme has been registered are complied with;

(h) issue a report to be included in the annual and second quarter report of the Collective Investment Scheme and therein state whether, in its opinion, the Asset Management Company has in all material respects managed the Open End

Scheme or Closed End Scheme in accordance with the provisions of the Constitutive Documents, the Rules and these Regulations, and if the Asset Management Company has not done so, the respects in which it has not done so and the steps that the trustee has taken in respect thereof;

(i) ensure that the Asset Management Company, has specified a criteria in writing to provide for a diverse panel of brokers at the time of offering of a scheme or for any subsequent change;

(j) ensure that the Asset Management Company has been diligent in appointing brokers to avoid undue concentration of business with any broker;

(k) ensure that units of an Open End Scheme have been issued after realisation of subscription money;

(l) ensure that the methodology and procedures adopted by the Asset Management Company in calculating the value of units are adequate and the pricing and valuation for sale, issue, repurchase, redemption and cancellation are carried out in accordance with the provisions of the Constitutive Documents and regulatory requirements;

(m) immediately inform the Commission if any action of the Asset Management Company [88][in relation to and on behalf of collective investment scheme] contravenes the Ordinance, the Rules, these Regulations, Constitutive Documents, guidelines, codes, circulars, directives or any other applicable laws[89][along with details of remedial action taken by the trustee where applicable;]

(n) comply with the directions of the Commission given in the interest of the unit holders or certificate holders[90][;

(o) arrange for its annual system audit by an auditor and provide the report of such audit to the Commission and the concerned Asset Management Company, within four months of the close of the financial year of the trustee;

(p) within three months of the close of its financial year pay an annual fee to the Commission at the rate of 0.005 per cent of average annual net assets of Open End Scheme or Closed End Scheme under its trusteeship and also furnish a copy of its annual audited accounts to the Commission;

(q) call a meeting of the unit holders in such manner specified by the Commission through circular,-

(i) whenever required to do so by the Commission in the interest of the unit holders; or

88 Inserted vide S.R.O. No. 814(I)/2011 dated September 05, 2011.

89 Replaced the text "; and" vide S.R.O. No. 814(I)/2011 dated September 05, 2011.

90 Inserted vide S.R.O. No. 814(I)/2011 dated September 05, 2011.

(ii) whenever required to do so as per the requirements of these Regulations;

and for this purpose the following requirements shall be ensured by the trustee for convening the meeting of unit holders:

(I) notice of the meeting indicating time, place and purpose of the meeting shall be given to every unit holder of the Collective Investment Scheme at least seven working days prior to the meeting;

(II) in case of meeting called for any specific purpose, statement of material facts and other pertinent information/documents shall be made available to the unit holders;

(III) trustee of the Collective Investment Scheme shall attend every meeting of the unit holders and shall act as secretary to such meeting;

(IV) any resolution passed or consented in writing by the majority of unit holders representing at least three fourths in value of the total outstanding units of the Collective Investment Scheme shall become binding except such resolution is contrary to the Rules, Regulations, Constitutive Documents or circulars and directives issued by the Commission; and

(V) the trustee shall submit minutes of the meeting along with any resolution passed in the meeting to the Commission within seven working days of the meeting;

(r) not invest in Open End Schemes for which it acts as trustee; and

(s) obtain and maintain duplicate of all the records of register of unit holders maintained by the Asset Management Company or the Registrar and shall update the record on a fortnightly basis.

41A. Restriction/ or Suspension of registration.- (1) Where a trustee contravenes or fails to comply with any provision of these Regulations or fails to fulfill its obligations under the Trust Deed or is not in compliance with conditions of registration or any directive, circular or order issued by the Commission, the Commission may, after providing a reasonable opportunity of representation to the trustee, impose restriction on its activities or suspend its registration.

(2) A trustee whose registration has been suspended shall not act as a trustee for any new Open End Scheme or Close End Scheme during the period of suspension and shall remove the cause of suspension within a period of ninety days from the receipt of the suspension order or such earlier period as provided through the order of suspension.

(3) The Commission while suspending the registration of a trustee may impose such additional conditions as it deems appropriate.

41B. Cancellation of Registration.- (1) The Commission, after providing a reasonable opportunity of representation to the trustee, may cancel the registration of a trustee if,-

(i) in the opinion of the Commission the trustee has been in violation of these Regulations or the Trust Deed or restriction imposed under sub-regulation (1) of regulation 41A or is found guilty of misconduct or failed to discharge its obligation under these Regulations or the Trust Deed;

(ii) it is found guilty of insider trading or fraud or a criminal offence; and

(iii) the trustee's registration has been suspended and the cause of suspension has not been removed within ninety days from the order of suspension or such earlier period as provided through such order.

(2) The registration of a trustee shall stand automatically cancelled if such trustee,-

(i) is declared insolvent by a Court;

(ii) voluntarily surrenders its certificate of registration to the Commission;

(iii) is discharged from its obligation by an order passed by a Court;

(iv) ceases to hold valid license/registration as a Schedule Bank or Investment Finance Company; or

(v) fails to apply for renewal of its registration within a time as specified in sub-regulation (1) of Regulation 40C.

(3) Notwithstanding anything contained in sub-regulation (1), where the Commission is satisfied that a delay in the cancellation of registration of the trustee will be detrimental to the interest of investors or the public in general, the Commission may immediately cancel the registration of the trustee till the time an opportunity of hearing is provided to the trustee and a final order is passed under sub-regulation (1).

Provided that where the Commission cancels the registration under sub-regulation (3) of Regulation 41B, the opportunity of hearing and final order must be passed within ninety days of the order under sub-regulation (3).

(4) Upon the cancellation of the registration, the trustee shall with immediate effect cease its business as a trustee and transfer all the necessary record to other trustee appointed by the AMC for this purpose.

(5) The Commission may conduct inquiry or inspection by any person appointed in this behalf into the affairs of a trustee or of any of its directors, managers or other officers or persons responsible for its affairs.]

42. Retirement or removal of trustee.- (1) A trustee may, subject to prior approval of

the Commission, retire from his office on appointment of a new trustee and the retirement shall take effect at the same time as the new trustee is appointed with the approval of the Commission or from the date of assumption of assets of the Open End Scheme or Closed End Scheme by the newly appointed trustee, whichever is later.

[91]Omitted

(3) An Asset Management Company may by giving reasons in writing apply to the Commission for change of the trustee and propose a new trustee.

(4) The Commission, if satisfied by the reasons given by the Asset Management Company and after providing an opportunity of hearing to the trustee, approve the removal of the existing and the appointment of a new trustee.

43. Trustee and the Asset Management Company to be independent.- (1) The trustee shall be independent of the Asset Management Company.

Explanation.- For the purposes of Regulation 43(1) the term "independent" means that there shall be no cross-shareholding nor common directorship between the Asset Management Company and trustee.

(2) A director or employee of the trustee shall not be involved in the affairs of Asset Management Company.

44. Registration of Open End Scheme or Closed End Scheme.- (1) No units or certificates of an Open End Scheme or Closed End Scheme shall be offered to the public unless the scheme is registered as a Notified Entity with the Commission.

(2) An Open End Scheme or Closed End Scheme which is in existence at the time of coming into force of these Regulations and not registered as a Notified Entity shall, within ninety days of coming into force of these Regulations, make an application for registration and the Commission, if it is satisfied, that the Open End Scheme or Closed End Scheme[92] is under the management of an Asset Management Company which is holding a valid licence may register the Open End Scheme or Closed End Scheme as a Notified Entity without payment of the registration fee.

[93][(3) An Asset Management Company shall submit the draft Trust Deed along with the

91 Deleted the text "(2) Where the Commission is of the opinion that trustee has been in violation of these Regulations or the trust deed or is found guilty of misconduct or failed to discharge its obligations under these Regulations, it may remove the trustee after giving the trustee an opportunity of being heard." vide S.R.O. No. 814(I)/2011 dated September 05, 2011.

92 Deleted the text "meets the minimum investment requirement specified in regulation 44(3)(e) and" vide S.R.O. No. 814(I)/2011 dated September 05, 2011.

93 Replaced the text "(3) An application for registration of an Open End Scheme or Closed End Scheme shall contain information as set out in Schedule VI and shall be accompanied by the following information and documents, namely:-

(a) the trust deed of the Closed End Scheme in accordance with Schedule-III and the trust deed for an Open End Scheme in accordance with Schedule-VII;

(b) the latest audited accounts, if applicable, of the NBFC licensed by the Commission to operate as the Asset Management Company and resumes of its directors;

(c) latest audited accounts of the trustee, if available;

(d) letter of consent by the trustee with respect to its appointment;

(e) an undertaking from the Asset Management Company that it will invest or arrange the investment of, -

name and consent of the trustee of the Closed End Scheme in accordance with Schedule-III and the Trust Deed along with name and consent of trustee for an Open End Scheme in accordance with Schedule-VII for the principle approval of the Commission.

(4) After the principle approval of the Commission, the Asset Management Company shall execute and register the Trust Deed in accordance with the provisions of Trust Act, 1882 (II of 1882) and thereafter an application for registration of an Open End Scheme or Closed end Scheme containing the information as set out in Schedule VI shall be submitted to the Commission along with fee as specified by the Commission in the Schedule II in the form of bank draft payable to the Commission or copy of paid challan form showing that the required fee has been paid in the designated bank branch in favor of the Commission.

(5) The Commission on being satisfied that the Scheme is eligible for registration may register the Scheme as a notified entity on such terms and conditions as it deems appropriate.

(6) No amendments including any modification, alteration and additions shall be made in the Constitutive Documents without prior notice to the Unit holders, consent of the trustee and prior approval of the Commission.

(7) In case the amendments are proposed in the fundamental attribute of the Constitutive Document of an open end scheme including category of scheme, investment objective and policy, increase in management fee and increase in contingent or back end load, the asset management company must give at least ninety days prior notice to each Unit Holder about the proposed change; and the Unit Holders shall be given an option to exit at the applicable Net Asset Value without charge of any exit load;]

[94][**45. Transfer of Management Rights of Open end Scheme or Close End Scheme,-**

(i) two hundred and fifty million rupees for a minimum period of two years or life of the Collective Investment Scheme whichever is lesser, for the first Open End Scheme or Closed End Scheme launched by it; and

(ii) one hundred million rupees, out of which at least fifty million rupees shall remain invested in the scheme for at least two years or life of the Collective Investment Scheme whichever is lesser, for every subsequent Collective Investment Scheme launched by it; and

(f) fee as specified by the Commission in the Schedule II in the form of bank draft payable to the Commission or copy of paid challan form showing that the required fee has been paid in the designated bank branch in favor of the Commission." vide S.R.O. No. 814(I)/2011 dated September 05, 2011.

94 Replaced the text "45. Cancellation of registration and revocation of the Open End Scheme or Closed End Scheme.- (1) An Asset Management Company, after the prior written approval of the Commission, shall give at least three months notice to unit or certificate holders and trustee if it intends to have the registration of the Open End Scheme or Closed End Scheme managed by it cancelled:

Provided that the registration of a Open End Scheme or Closed End Scheme launched for a definite period shall stand automatically cancelled upon completion of its specified life.

(2) At the end of the notice period given under Regulation 45(1), the Commission may by an order in writing cancel the registration of the Open End Scheme or Closed End Scheme.

(3) Upon representation to the Commission, by three fourth in value of the total unit holders or certificate holders of a Open End Scheme or Closed End Scheme, or if in the opinion of the Commission further continuation of the registration of the Open End Scheme or Closed End Scheme will be detrimental to the interest of the unit holders or certificate holders or the market generally, the Commission may cancel the registration of such Open End Scheme or Closed End Scheme :

Provided that the registration of the Open End Scheme or Closed End Scheme shall not be cancelled without providing an opportunity of being heard to the Asset Management Company and the trustee.

(4) In case of cancellation of registration, the Asset Management Company shall revoke the Open End Scheme or Closed End Scheme and refund the proceeds to the certificate holders or unit holders in such manner and within such time as may be specified by the Commission.

(5) Notwithstanding anything contained in any other provision, where in the opinion of the Commission or the Asset Management Company any delay in the revocation of an Open End Scheme or Closed End Scheme is detrimental to the interest of the unit holders, certificate holders or the market generally, the Commission may direct the immediate revocation of the Open End Scheme or Closed End Scheme without first canceling the registration or providing an opportunity of being heard to the Asset Management Company

(1) The management rights of an Open End Scheme or Close End Scheme may be transferred to another Asset Management Company upon the occurrence of any of the following events,-

(a) the Asset Management Company goes into liquidation, becomes bankrupt or has a liquidator appointed over its assets, or its license has been cancelled or does not hold valid license;

(b) where the AMC is unable to remove the suspension of redemption of units of Open End Scheme within the fifteen working days of suspension and the unit holders representing at least three fourth in value of total outstanding units of the concerned scheme pass a resolution or have given consent in writing that the scheme be transferred to another Asset Management Company;

(c) if in the opinion of the Commission further management of the Open End Scheme or Closed End Scheme by the existing Asset Management Company is detrimental to the interest of the unit holders, the Commission may direct the trustee to transfer such Open End Scheme or Closed End Scheme to another Asset Management Company acceptable to the Commission:

(2) For the purpose of transfer of management right an Asset Management Company shall execute a supplemental Trust Deed subject to the approval of the Commission.

45A. Extinguishment/Revocation of an Open End Scheme.- (1) An Open End Scheme may be extinguished by the occurrence of any of the following events,-

(a) the Open End Scheme has reached its maturity date as specified in the Trust Deed;

(b) where the AMC is unable to remove the suspension of redemption of units of Open End Scheme within the fifteen working days of suspension and the unit holders representing at least three fourth in value of total outstanding units of the concerned scheme pass a resolution or have given consent in writing that the scheme be revoked;

(c) where the Asset Management Company goes into liquidation, becomes bankrupt or has a liquidator appointed over its assets, or its license has been cancelled or does not hold valid license ;

(d) in the opinion of the Asset Management Company the scheme is not commercially viable or the purpose of the scheme cannot be accomplished subject to the consent of trustee;

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in such manner and within such time as may be specified by the Commission.

(6) Where the Commission grants approval under Regulation 45(1) or cancels the registration of the Open End Scheme or orders the revocation of the Open End Scheme, all issuance and redemption of units of the Open End Scheme shall stand suspended immediately.

(7) In case of revocation of the Open End Scheme or Closed End Scheme all unit holders or certificate holders shall be treated *pari passu*." vide S.R.O. No. 814(I)/2011 dated September 05, 2011.

(e) on occurrence of any event or circumstances which, in the opinion of the trustee, requires the Scheme to be revoked; and

(f) where the Commission deems it necessary to revoke the fund so directs either trustee or Asset Management Company in the interest of unit holders;

(2) Where a scheme is to be revoked the trustee shall immediately give notice to the Commission and in two newspapers having circulation all over Pakistan disclosing the circumstances leading to the revocation of the Scheme provided that this clause shall not be applicable to sub-clause (a) of sub-regulation (1) of this Regulation.

(3) On the date of publication of the notice under sub-regulation (2) of Regulation 45A the affairs of and all information relating to the Open End Scheme shall be transferred to the trustee till the completion of the final settlement of the affairs of the Open End Scheme [and the management company shall not be entitled to any further remuneration][95].

45B. Procedure and manner of Revocation of Open End Scheme.- (1) From the date of publication of the notice under sub-regulation (2) of Regulation 45A the issuance and redemption of unit shall be suspended and scheme shall cease to carry on its business, except so far as may be required for the beneficial revocation thereof.

(2) The trustee shall be authorized to dispose off the assets of the scheme in the best interest of the unit holders of that scheme and any sale, settlement or arrangement executed by the trustee in pursuance of revocation of open end scheme shall be binding on the Asset Management Company and unit holders of the scheme.

(3) The trustee upon the commencement of revocation process shall also submit, in addition to specified statutory reports, quarterly reports to the Commission providing details of the various steps taken by it in the final settlement of the affairs of the trust.

(4) The proceeds from the sale of the asset of the scheme shall be first utilized towards discharge of such liabilities as are due and payable under the scheme and after making appropriate provision for meeting the expenses connected with such revocation the balance shall be paid to the unit holders in proportion to their respective interest in the assets of the scheme on the date when the decision for revocation was taken.

(5) On the completion of the revocation process the trustee shall forward to the Commission and the unit holders a report on the revocation process containing particulars such as circumstances leading to the revocation, the steps taken for disposal of assets of the fund before revocation, expenses of the fund for revocation, net assets available for distribution to the unit holders and a certificate from the auditors of the fund.

(6) After the receipt of winding up report by trustee, if the Commission is satisfied that all measures for revocation of the scheme have been complied with, the Commission shall

95 Inserted vide SRO 1160(I)/2015 dated 25 November 2015

cancel the registration of an Open End Scheme and the scheme shall cease to exist.]

Collective Investment Schemes
Investment Company

46. Existing Investment Company to register as Notified Entity.- An Investment Company which is in existence at the time of coming into force of these Regulations and not registered as a Notified Entity shall, within ninety days of coming into force of these Regulations, make a fresh application for registration and the Commission shall register the Investment Company as a Notified Entity without the payment of any registration fee, if satisfied, that the Investment Company meets the following requirements, -

(i) that the Investment Company meets the minimum equity requirement of two hundred and fifty million rupees; and

(ii) that the Investment Company is under the management of an Asset Management Company which is holding a valid licence.

(2) An existing Investment Company shall make an application for registration as set out in Form I and the Commission if satisfied with the applications may register the Investment Company in Form II.

47. Conditions applicable to Investment Company.- An existing Investment Company which complies with the requirements of Regulation 46 and is subsequently registered by the Commission shall,-

(a) remain as a public company;

(b) maintain a minimum equity of not less than two hundred and fifty million rupees;

(c) have directors, officers or employees who have not been convicted of fraud or breach of trust;

(d) have directors, officers or employees who have not been adjudicated as insolvent or have not suspended payment or have not compounded with creditors; and

(e) have promoters and directors who in the opinion of the Commission, are persons of means and integrity and have specialized knowledge of matters which the company may have to deal with as an Investment Company.

48. Appointment of Asset Management Company.- (1) No Investment Company shall appoint an Asset Management Company except by a contract in writing setting out, –

(a) the duties, rights and obligations of the parties;

(b) the mechanism for enforcement of the terms of the contract; and

(c) the circumstances under which the contract can be revoked:

Provided that the appointment of Asset Management Company shall be subject to the prior approval of the Commission.

(2) The contract shall, initially or on renewal, be valid for a period not exceeding ten years and shall not be renewed or modified unless such renewal or modification has been authorized by the shareholders of the Investment Company in a general meeting.

(3) The contract shall, *inter-alia* provide, for the consequential penalty or damages to be borne by the contracting parties in case of violations of any provisions or breach of contract.

(4) The contract shall, among other things, provide that the Asset Management Company 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 shall disclose the fees payable by the Investment Company in terms of Regulation 60(3).

(5) A copy of the contract shall be submitted to the Commission for approval.

(6) The Investment Company may, with the prior written approval of the Commission, change the Asset Management Company providing services to it.

49. Custody of assets.- (1) Every Investment Company shall place and maintain all assets owned or held by the company with a custodian appointed by it with the prior approval in writing of the Commission.

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

(3) The custodian shall, if any release of any asset from custody is contrary to the provisions of the Rules or these Regulations, report the matter to the Commission forthwith.

50. Conditions applicable to custodian.- (1) The custodian shall not be an Investment Advisor or an Asset Management Company.

(2) The custodian shall be independent of the Investment Company or Asset Management Company appointed by the Investment Company.

Explanation.- For the purposes of Regulation 50(2) the term “independent” means that there shall be no cross-shareholding nor common directorship between the Asset Management Company, Investment Company and the custodian.

(3) A director or employee of the custodian shall not be involved in the affairs of Asset Management Company or the Investment Company.

51. Maintenance of books of accounts and other records.- (1) Every Investment Company shall maintain such books of accounts and other records as shall depict a true and fair view of its state of affairs, including, -

(a) journals, cash books and other records of original entry forming the basis of entry in any ledger;

(b) ledgers (or other comparable record) reflecting assets, liabilities, income and expenses;

(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 accounts and other records to be maintained under Regulation 51(1) shall be preserved for a period of not less than ten years.

52. Periodical reports to shareholders, etcetera.- Every Investment Company shall, -

(a) transmit to its shareholders and the Commission the following documents prepared as per the requirements set in Schedule V;

(i) the annual report;

(ii) copy of the balance sheet;

(iii) income statement, cash flow statement and statement of changes in equity and the auditor's report:

Provided that the aforementioned documents shall be transmitted to the shareholders and the Commission within twenty one days before the date of the general meeting at which they will be laid before the shareholders;

(b) within thirty days of the close of the first and third quarter and within two months of the close of second quarter of the year transmit to its shareholders and the Commission quarterly report, including, -

(i) copy of the balance sheet;

(iii) income statement;

(iv) cash flow statement;

(iii) statement of changes in equity; and

(iv) 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 the person whose securities are owned for that quarter, whether audited or otherwise; and

Provided that the Commission, subject to any conditions, may allow the Investment Company to transmit the said quarterly accounts to the share holders by placing them on its website or the website of the Asset Management Company and the Investment Company shall make the printed copy of the said accounts available to the share holders, free of cost, as and when requested;

(c) disclose the profit and loss account of the Asset Management Company in relation to the Investment Company in its own profit and loss account.

53. Appointment of an auditor.- An Investment Company shall appoint an auditor, from the approved list of auditors circulated by the Commission, who shall be a chartered accountant:

Provided that the auditor so appointed shall, -

(a) not be auditor of the Asset Management Company or the custodian appointed by the Investment Company; and

(b) not remain the auditor of the Investment Company for more than five consecutive years.

Collective Investment Schemes

54. Invitation to invest and advertisements.- [(1) Offering Document of a Collective Investment Scheme shall be submitted to the Commission for approval prior to its issue.][96]

(2) Notwithstanding the provisions of the Ordinance, a prospectus of an Investment Company shall contain the information required under Schedule IV.

(3) The Offering Document of a Closed End Scheme or Open End Scheme shall contain the information as set out in Schedule-IV and VIII, respectively.

[97][(3a) The minimum size of an Open End Scheme shall be one hundred million rupees at all times during the life of the scheme and all existing Open End Schemes shall ensure compliance with this minimum scheme size limit by the first day of July, 2012.

96 Substituted for the words "(1) Offering Document and other invitations to the public to invest in a Collective Investment Scheme including public announcements shall be submitted to the Commission for approval prior to their issue.

Provided that such invitations, submitted for approval of the Commission, which concerns the trustee and the Shariah Advisor shall be accompanied by their written consent." Vide SRO 1160(I)/2015 dated 25 November 2015

97 Inserted vide S.R.O. No. 814(I)/2011 dated September 05, 2011.

Explanation**: -** The minimum fund size means the Net Assets of the Open End Scheme.

(3b) Subject to sub-regulations (3a) after the initial public offering or subsequently at any time if the size of any Open End Schemes falls below that minimum size specified in sub-regulation (3a) the asset management company shall ensure compliance with the minimum fund size within three months of its breach and if the fund size remains below the minimum fund size limit for consecutive ninety days the Asset Management Company shall immediately intimate the grounds to the Commission upon which it believes that the Open End Scheme is still commercially viable and its objective can still be achieved.

(3c) where the Asset Management Company intimates grounds to the Commission for commercial viability of the Open End Scheme it shall also submit the following documents to the Commission,-

a) the unit holders resolution passed by at least three fourths in value of total outstanding units supporting the Asset Management Company's views; and

b) a time bound action plan to increase the fund size to the minimum requisite fund size for consideration of the Commission.

(3d) Where the Commission is not satisfied with the submission of Asset Management Company under sub-regulation (3b) and (3c) it may direct the Asset Management Company or the trustee to revoke the Open End Scheme.]

(4) All advertisements of a Collective Investment Scheme shall be in conformity with the requirements as may be specified by the Commission.

(5) Any approval granted by the Commission under Regulation 54, –

(a) may be varied or withdrawn by the Commission after giving an opportunity of being heard to the Asset Management Company, except for advertisements which may be varied or withdrawn immediately;

(b) shall be valid for a period of sixty days from the date of approval provided that there is no change in the approved documents or the approval has not been extended.

55. Investment policy and diversification.- (1) An Asset Management Company shall clearly state the objectives and the investment policy of a, –

(a) Closed End Scheme or Open End Scheme in the Offering Document; and

(b) of an Investment Company in the prospectus.

(2) The Commission may specify categorization of Collective Investment Schemes for the purpose of investments.

(3) A Collective Investment Scheme shall not invest in Unlisted Equity Securities unless an application for listing of such securities has been accepted by the stock exchange:

Provided that a Collective Investment Scheme may make total investments in a pre-initial public offering (Pre-IPO) up to fifteen percent of its net asset value, subject to the investment limits prescribed under these Regulations.

(4) An Asset Management Company shall, -

(a) state in the trust deed and specify in the Offering Document of the Closed End Scheme or Open End Scheme; or

(b) state in the prospectus of an Investment Company;

the type of securities the Collective Investment Scheme will invest in and the risks associated with such securities.

(5) [Subject to sub-regulation (6) of this Regulation][98] Exposure of a Collective Investment Scheme to any single entity shall not exceed an amount equal to ten per cent of total net assets of the collective investment scheme, subject to following conditions:

(a) Exposure to equity securities of a company shall not exceed ten percent of the issued capital of that company;

(b) Exposure to any debt issue of a company shall not exceed ten percent of that issue.

[Provided that subject to the conditions prescribed in clauses (a) and (b) above the exposure of an equity scheme to any single entity shall not exceed an amount equal to ten per cent of the net assets of the Scheme or the index weight of the security subject to the limit of fifteen percent, whichever is higher.][99]

(6) Exposure limits for following types of schemes shall be lower of net assets of a scheme or issued securities of a company:

Type of Scheme (Fund)	**Maximum limit (Equity Securities)**	**Maximum limit (Debt Securities)**
Shariah Compliant/Islamic Fund	15%	15% of single issue
Index Funds (tracking recognised or approved index or its subset)	weight of security in the index or its subset	weight of security in index or its subset

1 Added vide S.R.O 591 (I)/2010 dated June 29, 2010.

99 Added vide S.R.O 591 (I)/2010 dated June 29, 2010.

Sector specific fund	20%	20% of a single issue
Capital Protected Fund or Guaranteed Fund	Per company limit as specified in sub-regulation (5) shall not apply to such percentage of assets of the scheme that is placed with a bank or invested in such a manner that it will become 100% at maturity of the scheme/fund or a guarantee has been obtained from the bank for guaranteed fund	
[100][Fund of funds	No limit; Provided that the Asset Management Company shall not charge management fee if the fund invests in the schemes managed by the same Asset Management Company.]	

[101][ ]

(7) An Asset Management Company shall not acquire twenty five percent or more of the voting rights or control of a company on behalf of its Collective Investment Schemes:

Provided that the Asset Management Company shall comply with the condition, including divestment by Collective Investment Schemes, latest by March 31, 2009.

(8) An Asset Management Company authorized by the Commission to invest overseas on behalf of Collective Investment Scheme shall disclose the same in the Constitutive Document and comply with such conditions as specified by the Commission.

(9) An Asset Management Company shall not invest more than twenty five per cent of total net assets of the Collective Investment Scheme in securities of any one sector as per classification of the stock exchange, provided that the following types of schemes shall follow the limits specified below:

[

Type of Scheme(Fund)	**Maximum Per Sector limit**
Equity Funds	30% or index weight which ever is higher, subject to maximum of 35%
Shariah Compliant/Islamic Fund	35% or index weight, which ever is higher, subject to maximum of 40%
Index Funds (tracking recognized or approved index or its subset)	Weight of sector in the index or its subset
Sector specific fund	No limit
Fund of funds	No limit; Provided that the Asset Management Company shall not charge management fee if

100 Inserted vide S.R.O. No. 814(I)/2011 dated September 05, 2011.

101 Deleted the text "Provided that where the Exposure of a Collective Investment Scheme exceeds the limits specified in Regulation 55(5) and (6) because of corporate actions including taking up rights or bonus issue or due to market price increase or decrease in net assets the excess Exposure shall be regularized within three months of the breach of limits unless the said period of three months is extended 101[ ] by the Commission on an application by the Asset Management Company." vide S.R.O. No. 814(I)/2011 dated September 05, 2011.

	the fund invests in the schemes managed by the same Asset Management Company.
Capital Protected Fund or Guaranteed Fund	No limit; Provided that such percentage of assets of the scheme is placed with a bank or invested in such a manner which will become 100% at maturity of the scheme or a guarantee has been obtained from the bank for guaranteed funds.

][102]

[Provided that the Commission may specify a higher maximum limit for a specific sector.][103]

(10) An Asset Management Company, on behalf of Collective Investment Scheme, shall not take Exposure of more than,-

(a) thirty five per cent of net assets of Collective Investment Scheme in any single group; and

Explanation: For the purpose of Regulation 55(10)(a) "group" means persons having at least 30% common directors or 30% or more shareholding in any other company, as per publicly disclosed information;

(b) ten per cent of net assets of collective investment scheme in listed group companies of the asset management company and such Exposure shall only be made through the secondary market.:

(11) A Closed End Fund may invest in its own certificates or shares up to twenty per cent of its issued capital from the secondary market in accordance with the requirements specified by the Commission.

(12) The Commission may specify different Exposure limits and parameters for Collective Investment Scheme depending on its Investment objective and policy.

102 Following table substituted vide S.R.O 591 (I)/2010 dated June 29, 2010.

Type of Scheme(Fund)	Maximum Per Sector limit
Shariah Compliant/Islamic Fund	30%
Index Funds (tracking recognised or approved index or its subset)	weight of sector in the index or its subset
Sector specific fund	No limit
Fund of funds	No limit; Provided that the Asset Management Company shall not charge management fee if the fund invests in the schemes managed by the same Asset Management Company.
Capital Protected Fund or Guaranteed Fund	No limit; Provided that such percentage of assets of the scheme is placed with a bank or invested in such a manner which will become 100% at maturity of the scheme or a guarantee has been obtained from the bank for guaranteed funds.

103 Inserted vide SRO 1160(I)/2015 dated 25 November 2015

[(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.][104]

14) The exposure limits prescribed under sub-regulation (10) of Regulation 55 will not be applicable for Index Funds, Capital Protected Fund and Fund of Funds or any other category as specified by the Commission]

[(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.][105]

[**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.][106]

57. Pricing, issue and redemption of units.- (1) Offer and redemption prices of units shall be calculated on the basis of the net assets of the Open End Scheme divided by the number of units outstanding and such prices may be adjusted by fees and charges:

Provided that the amount or method of calculating such fees and charges is disclosed in the Offering Document.

(2) There shall be at least four regular dealing days per week subject to relaxation for a specific scheme as approved by the Commission.

(3) Any offer price, which the Asset Management Company or the distributor quotes or publishes, must be the maximum price payable on purchase and any redemption price must be the net price receivable on redemption.

(4) The maximum interval between the receipt of a properly documented request for redemption of units and the issue of payment instrument for the redemption money to the holder

104 Substituted for the words "(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 the excess Exposure shall be regularized within three months of the breach of limits unless the said period of three months is extended by the Commission on an application by the Asset Management Company." Vide SRO 1160(I)/2015 dated 25 November 2015

105 Inserted vide SRO 1160(I)/2015 dated 25 November 2015

106 Substituted for the words "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, -

(a) the Asset Management Company has made or has arranged to make an investment of the amount referred to in Regulation 44(3)(e); and

(b) the offer has been underwritten by an underwriter or Asset Management Company of the Closed End Fund with the prior approval of the Commission." Vide SRO 1160(I)/2015 dated 25 November 2015

shall not exceed six working days [or such other period as specified by the Commission for any specific category of fund,][107] unless redemption has been suspended.

(5) Where an Open End Scheme deals at a declared price, and such price exceeds or falls short of the current value of the underlying assets by more than five per cent based on information available, the Asset Management Company shall defer dealing and calculate a new price as soon as possible.

(6) A permanent change in the method of dealing shall be made after expiry of one month notice to unit holders and with the approval of trustee.

(7) A temporary change in the method of dealing shall only be made, -

(a) in exceptional circumstances, having regard to the interests of unit holders;

(b) if the possibility of a change and the circumstances in which it can be made have been fully disclosed in the Offering Documents; and

(c) with the approval of the trustee.

(8) Suspension of redemption shall be provided in exceptional circumstances [108][up to a maximum for fifteen working days], having regard to the interests of unit holders and such a decision shall be made with the prior approval of the board of the Asset Management Company [109][and during suspension of redemption issuance of units shall also remain suspended].

(9) The Asset Management Company shall immediately inform the Commission and the trustee if redemption in units ceases or is suspended and the fact that the redemption is suspended shall be published immediately in the newspaper in which the scheme's prices are usually published.

(10) Where redemption requests on any one dealing day exceed ten per cent of the total number of units in issue, redemption requests in excess of ten per cent may be deferred to the next dealing day.

(11) Subject to the provisions of the Offering Document and after recording reasons in writing the Asset Management Company may suspend the sale of units and immediately inform the Commission, the trustee and the general public of such decision.

(12) Notwithstanding anything contained in any other provision, where the Commission is of the opinion that it is in the interest of the unit holders or certificate holders, it may direct that the operations of Open End Scheme or Close End Scheme including the issuance, sale or redemption of units shall be suspended with effect from such date as specified by Commission.

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107 Words inserted vide S.R.O.764 (I)/2009 dated September2, 2009.

108 Inserted vide S.R.O. No. 814(I)/2011 dated September 05, 2011.

109 Inserted vide S.R.O. No. 814(I)/2011 dated September 05, 2011.

[110][(13) The suspension of redemption shall end on the day following the first business day on which the exceptional circumstances giving rise to the suspension in the opinion of the Board of Directors of the Asset Management Company have ceased to exist.

(14) Where the AMC is unable to remove the suspension of redemption of unit of Open End Scheme within the fifteen working days of suspension the trustee shall immediately call the meeting of the unit holders at the expiry of the fifteenth days to decide whether to continue the suspension of redemptions for a further period or to terminate, revoke or transfer the Open End Scheme to another Asset Management Company.

(15) The decision to continue the suspension, revoke or transfer the Open End Scheme to another Asset Management Company shall be supported by consent given in writing or resolution passed by unit holders representing at least three fourths in value of total outstanding units of the concerned scheme.

(16) The Asset Management Company shall inform the Commission and the trustee about the date of termination of suspension of dealing in units and publish the notice regarding the termination of dealing in units in two leading daily newspapers having circulation all over Pakistan.]

58. Limitations and prohibitions.- (1) Subject to Regulation 58(2), an Asset Management Company on behalf of a Collective Investment Scheme managed by it shall not,-

(a) affect a short sale in a security whether listed or unlisted;

(b) purchase any security in a forward contract;

(c) purchase any security on margin;

(d) apply any part of its assets to real estate, commodities or commodity contracts;

(e) invest in securities of the Asset Management Company;

(f) issue a senior security which is either stock or represents indebtedness, without the prior written approval of the Commission;

(g) apply for de-listing from stock exchange, unless it has obtained prior written approval of the Commission;

(h) invest in any security of a company, if, -

(i) any director or officer of the Asset Management Company or Investment Company owns more than five per cent of the total amount of securities issued by that company; or

110 Inserted vide S.R.O. No. 814(I)/2011 dated September 05, 2011.

(ii) the directors and officers of the Asset Management Company or Investment Company collectively own more than ten per cent of those securities:

Provided that Regulation 58(1)(h) shall not apply to Open End Scheme or Closed End Scheme tracking an index or a sub-set of an index;

(i) if it is an Investment Company, -

(i) appoint on its board fifty per cent or more directors who represent interest of Asset Management Company;

(ii) appoint or change its chief executive or any of its directors, excluding director nominated by the Federal Government or Provincial Governments, without prior written approval of the Commission.

(j) [finance][111], assume, guarantee, endorse or otherwise become directly or Contingently Liable for or in connection with any obligation or indebtedness of any person:

Explanation**.-** Reverse repo transactions involving Government Securities or other debt securities stated as authorized investments in the Offering Document under an agreement and spread transaction through ready buy and future sale or CFS or replacement thereof which are protected by the clearing company and stock exchanges shall not be attracted by clause (j) provided risk management parameters are disclosed in the offering document of the scheme; and

[(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;][112]

(l) sell units or issue shares or certificates for consideration other than cash unless permitted by the Commission on the basis of structure and investment policy of the Collective Investment Scheme;

(m) without obtaining prior approval of the Commission merge Collective Investment Schemes or acquire or take over any other Collective Investment Scheme;

(n) invest the subscription money until the closure of public offer of shares or certificates;

(o) issue right shares or certificates at a price which is less than average of net asset

111 Substituted for the word "lend" vide SRO 1160(I)/2015 dated 25 November 2015

112 Substituted for the words "(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 and shall be repayable within a period of ninety days;" vide SRO 1160(I)/2015 dated 25 November 2015

value of shares or certificates over ninety days period immediately preceding the announcement of right issue of a Closed End Fund; and

(p) take Exposure in any other Collective Investment Scheme, except for fund of funds or overseas investment:
Explanation**.-** For the purpose of this Regulation "fund of funds" means a Collective investment Scheme set up with the objective to predominantly invest in the securities of other Collective investment Schemes and shall comply with these Regulations by June 30, 2009 [1][or such extended period of time as specified by the Commission].

Provided that Clause 58(d) shall not apply to shariah compliant Collective Investment Scheme entering into commodity based contracts as a vehicle; (a) to place funds or ; (b) to borrow funds to meet redemptions, as referenced in clause 58 (k) of these Regulations.

(2) Regulations 58(1)(a) ,(b), (c) and (d) shall not apply to Collective Investment Scheme which has an investment objective and policy to short-sell, purchase securities on margin and invest in commodities or commodity contracts on terms and conditions specified by the Commission.

59. Transactions with connected person and employees.- (1) An Asset Management Company on behalf of a Collective Investment Scheme shall not without the [1][ ] approval of the [2][its Board of Directors] in writing [3][and consent of Trustee], purchase from, or sell any securities to any connected person or employee of the Asset Management Company:

Explanation**:** Regulation 59(1) shall not apply to the issue, sale or redemption of units or shares or certificates issued by the Collective Investment Scheme.

(2) Where cash forming part of assets of Collective Investment Scheme is deposited with the trustee or the custodian that is a banking company or an NBFC, a return on the deposit shall be paid by such trustee or custodian at a rate that is not lower than the rate offered by the said banking company or NBFC to its other depositors on deposits of similar amount and maturity.

(3) All transactions with connected persons carried out by an Asset Management Company on behalf of the Collective Investment Scheme shall be in accordance with the provisions of the Constitutive Documents and shall be disclosed in the annual report of the Collective Investment Scheme.

[(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.][113]

60. Expenses Chargeable to Collective Investment Schemes.- (1) All expenses incurred in connection with the incorporation, registration or establishment of a Closed End Fund, the offer for sale of the securities of such fund and the distribution of such securities, including commission payable to the underwriter, shall be borne by the Asset Management Company and reimbursed from such fund, subject to the audit of expenses, in equal amounts paid annually over a period of not less than five years or within the maturity date of such fund if it has life of less than five years:

Provided that an Asset Management Company of a Closed End Fund whose capital has already been issued, subscribed and listed shall not be entitled to reimbursement of any expense other than that incurred in connection with incorporation, registration or establishment of such Closed End Fund.

(2) All expenses incurred in connection with the establishment and registration of an Open End Scheme including,-

(a) execution and registration of the Constitutive Documents;

(b) issue, legal costs, printing, circulation and publication of the Offering Document;

(c) announcements describing the Open End Scheme; and

(d) expenses incurred during the initial period;

shall be borne by the Asset Management Company and reimbursable, subject to the audit of expenses, by the fund over a period of not less than five years or within the maturity date of the fund or any other time period as may be specified by the Commission.

(3) Notwithstanding the generality of Regulations 60(1) and (2), the following fees and charges shall be payable from the Collective Investment Scheme, -

(a) remuneration of the Asset Management Company;

(b) remuneration of trustee or custodian;

(c) in case of an Investment Company, the directors fees and related expenses for attending meetings;

(d) listing fee payable to the stock exchange, including renewals;

(e) charges and levies of stock exchange, national clearing and settlement company and central depositary company;

113 Inserted vide SRO 1160(I)/2015 dated 25 November 2015

(f) rating fee of Collective Investment Scheme payable to approved rating agency;

(g) auditors' fees and out of pocket expenses as billed by them;

(h) fees payable to the Commission;

(i) formation cost of the Collective Investment Scheme not exceeding one per cent of the pre-initial public offering capital in case of an Open End Scheme and one percent of the paid-up capital in case of a Closed End Fund or five million rupees whichever is lower;

(j) brokerage and transaction costs related to investing and disinvesting of the assets of the Collective Investment Schemes;

(k) expenses incurred by trustee in affecting registration of all registerable assets in the name of the trustee;

(l) legal and related costs incurred in protecting the interests of the unit, certificate or share holders of the Collective Investment Scheme;

(m) bank charges, borrowing and financial costs;

(n) hedging costs including forward cover, forward purchase or option purchase costs;

(o) printing costs and related expenses for issuing the quarterly, half-yearly and annual reports, etcetera of the Collective Investment Scheme;

(p) taxes, fees, duties and other charges applicable to the Collective Investment Scheme on its income or its properties, including taxes, fees, duties and other charges levied by a foreign jurisdiction on investments made oversees;

(q) in case of Investment Company, printing and distribution of notices of meetings;

(r) any other expense or charge as may be allowed by the Commission.

[(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.][114]

(4) The expenses referred to in Regulations 60(1) and (2) shall be reported with their break-up under separate heads by the Asset Management Company to the Commission and the

114 Inserted vide SRO 1160(I)/2015 dated 25 November 2015

trustee, as soon as the distribution of the securities is completed.

[(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.][115]

[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.][116]

62. Annual fee.- An Asset Management Company managing a Collective Investment Scheme, within three months of the close of accounting year of the Collective Investment

115 Inserted vide SRO 1160(I)/2015 dated 25 November 2015

116 Substituted for the words "61. Remuneration payable to Asset Management Company.- An Asset Management Company shall be entitled to an accrued remuneration equal to an amount not exceeding three percent of the average annual net assets of the Collective Investment Scheme that has been verified by the trustee and is paid in arrears on monthly basis during the first five years of existence of the Collective Investment Scheme and thereafter of an amount equal to two per cent of such assets or such other amount as may be specified by the Commission:

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." Vide SRO 1160(I)/2015 dated 25 November 2015

Scheme, shall pay the Commission [non-refundable annual fee][117] which is such percentage of average annual net assets of the Collective Investment Scheme as provided in Schedule II:

Provided that the annual fee shall be chargeable by the Asset Management Company to the Collective Investment Scheme.

Explanation**.** - For the purposes of Regulations 61 and 62 "average annual net assets" means the average of net assets calculated on daily, weekly or monthly basis during the year.

63. Amount distributable to shareholders.-[(1)][118] An Asset Management Company on behalf of a Collective Investment Scheme shall, for every accounting year, distribute by way of dividend to the unit holders, certificate holders or shareholders, as the case may be, not less than ninety per cent of the accounting income of the Collective Investment Scheme received or derived from sources other than [119][ ]capital gains as reduced by such expenses as are chargeable to a Collective Investment Scheme under these Regulations [120][:

Provided that in case of a Closed End Fund, the realized capital gains shall also be distributed as per above requirement.]

Explanation.- For the purpose of this Regulation the expression "accounting income" means income calculated under the International Accounting Standards and verified by the auditors.

[(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.][121]

64. Publication of net asset value of Closed End Fund.- An Asset Management Company managing a Closed End Fund shall furnish to the stock exchange on which the securities of the fund are listed, the Commission, the relevant association and such other entity as directed by the Commission, within fourteen days of the last day of the preceding month, information about the net asset value of securities issued by it, as on last date of the preceding month.

65. Conversion or cancellation or winding-up of Closed End Fund.- (1) An Asset Management Company managing a Closed End Fund or an Investment Company shall, upon expiry of [122][ ] five years from 21st November 2007 or the date of launch of the fund whichever is later, hold within one month of such period a meeting of the certificate holders in case of a Closed End Scheme or shareholders in case of an Investment Company to seek approval of the certificate holders or shareholders, as the case may be, to convert into an Open End Scheme or revoke the Closed End Scheme or wind up the Investment Company, subject to applicable

117 Substituted for the words "an annual fee" vide SRO 1160(I)/2015 dated 25 November 2015

118 Inserted vide SRO 1160(I)/2015 dated 25 November 2015

119 Deleted the word "unrealized" vide SRO 427(I)/2015 dated May 20, 2015

120 Inserted vide SRO 427(I)/2015 dated May 20, 2015

121 Inserted vide SRO 1160(I)/2015 dated 25 November 2015

122 Deleted the word "every" vide SRO 1492(I)/2012 dated December 26, 2012

provisions of the Ordinance, the Rules and these Regulations:

[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:][123]

[124][ ]

Provided further that in the case of Closed End Fund, where their portfolio is frozen as a result of an agreement with the Privatization Commission (i.e. funds previously managed by the Investment Corporation of Pakistan) such Closed End Fund shall hold the aforementioned meeting [within three months][125] from the date of removal of freezing of the portfolio or five years from 21st November 2007, which ever is later.

(2) [The meeting of certificate holders or shareholders, as the case may be, shall decide on any one of the following:

(a) conversion of Closed End Fund into an Open End Scheme; or

(b) revocation of Closed End Scheme; or

(c) winding up of an Investment Company.][126]

[(2a) In case of winding up of Investment company, a special resolution of shareholders shall be obtained by casting a vote through proxy or physical presence in a meeting and in case of conversion of Investment Company in to an Open End Scheme, by passing a resolution of shareholders through simple majority by casting vote through proxy or physical presence in the meeting and in case of conversion of Closed End Scheme in to Open End Scheme or revocation of Closed End Scheme, by passing a resolution of certificate holders through simple majority by casting a vote through proxy, physical presence or in writing through post, and all such resolutions once passed shall be binding on the Asset Management Company.

(2aa) The meeting of the certificate holders of the Closed End Scheme shall be convened in accordance with the requirements as prescribed by the Commission through circular.

(2aaa) An Asset Management Company shall ensure publication and dissemination of the notice of the meeting of certificate holders of the Closed End Scheme along with the draft resolution at least seven days prior to the date of meeting and in case of Investment Company 21 days prior to the date of meeting of shareholders and all such notices shall also specify all

123 Substituted for the words "Provided that Regulation 65(1) shall not apply to Closed End Funds having five years or less than five years maturity period:" vide SRO 1160(I)/2015 dated 25 November 2015

124 Deleted the text "Provided further that not less than ten members of a Closed End Fund holding at least twenty-five percent voting power may request the Commission to direct the Asset Management Company to arrange meeting for the purposes stated in the sub-regulation after the expiry of first five years and the Commission may require the Asset Management Company to arrange the meeting for the purpose:" vide SRO 1492(I)/2012 dated December 26, 2012

125 Replaced the words "on the completion of one year" vide SRO 1492(I)/2012 dated December 26, 2012

126 Replaced the text "The meeting of certificate holders or shareholders, as the case may be, shall decide on conversion, winding up or revocation of the closed end fund by passing a special resolution of certificate holders or shareholders in a meeting." vide SRO 1492(I)/2012 dated December 26, 2012

material facts, particularly the impact of conversion, revocation or winding up, as the case may be, on the certificate holders or shareholders."; and][127]

(3) Not later than fifteen days from the date of meeting of the certificates holders or shareholders, as the case may be, the Closed End Fund shall make an application to the Commission for conversion or revocation or winding up, as the case may be, accompanied with a copy of the [relevant resolution.][128]

(4) The Commission after ensuring the completion of formalities by the concerned NBFC and Closed End Fund, as prescribed in the Rules, these Regulations and the Ordinance or the conditions as specified by the Commission, shall allow the conversion or revocation or winding up of the fund, as the case may be.

66. Calculation of net assets.- Net assets in relation to a Collective Investment Scheme shall be calculated in the following manner:

(a) [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.][129]

(b) an Unlisted Debt Security and a debt security listed but not traded regularly on a stock exchange shall be valued in the manner specified by the Commission;

(c) an investment purchased and awaiting payment against delivery shall be included for valuation purposes;

(d) an investment sold but not delivered pending receipt of proceeds shall be valued at the net sale price;

(e) the value of any dividends, bonus shares or rights which may have been declared on securities in the portfolio but not received by the Collective Investment Scheme as of the close of business on the valuation date shall be included as assets of the Collective Investment Scheme 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;

(f) mark-up accrued on any mark-up-bearing security in the portfolio shall be included as an asset of the Collective Investment Scheme if such accrued mark-up is not otherwise included in the valuation of the security;

(g) any other income accrued upto the date on which computation was made shall

127 Inserted vide SRO 1492(I)/2012 dated December 26, 2012

128 Replaced the words "special resolution:" vide SRO 1492(I)/2012 dated December 26, 2012

129 Substituted for the words "a security listed on a stock exchange, local or foreign as the case may be, shall be valued at its last sale price on such exchange on the date on 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 neither higher than the closing asked price nor lower than the closing bid price;" vide SRO 1160(I)/2015 dated 25 November 2015

also be included in the assets;

(h) all liabilities, expenses and other charges due or accrued up to the date of computation which are chargeable under these Regulations and taxes shall be deducted from the value of the assets;

(i) the remuneration accrued up to the date of computation payable to the Asset Management Company for providing management and other services shall be included as an expense;

(j) a security not listed or quoted on a stock exchange, other than Government Securities or debt security, shall be valued at investment price or its break up value as per last audited accounts, whichever is lower;

(k) Government Securities not listed on a stock exchange and traded in the interbank market shall be valued at the average rate quoted on a widely used electronic quotation system and such average rate shall be based on the remaining tenor of the security;[130][ ] and

(l) any such method of valuation of assets and liabilities as may be specified or modified by the Commission from time to time; [131][and

(m) take all reasonable steps and exercise due diligence to ensure that the assets of Collective Investment Scheme are correctly valued and priced, in line with the provisions of these regulations and Constitutive Documents:

Explanation**:-** For the purpose of valuing the fund's property and pricing the Collective Investment Scheme's units, a management company shall not do or omit anything that will confer on itself or certain unit holders a benefit or advantage at the expense of other unit holders or potential unit holders.]

[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.

130 The word "and" deleted vide S.R.O. No. 814(I)/2011 dated September 05, 2011.

131 Inserted vide S.R.O. No. 814(I)/2011 dated September 05, 2011.

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) ensue 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.][132]

[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;

132 Inserted vide SRO 1160(I)/2015 dated 25 November 2015

(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.][133]

133 Substituted for the words "Investment Advisory Services 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;

[67 A. Relaxation of Regulations. - If any difficulty arises in giving effect to any of the provisions of these regulations in a particular case, or class of cases, or if it would be in the interest of capital market so to do, the Commission may, for reasons to be recorded in writing relax such requirements subject to such conditions as it may deem fit.] [134]

PART – IV
Repeals and Savings

68. Savings and Repeals.- Save as provided in Regulation 68(2), the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2007 and S.R.O. No. 683(I) of 2008 are hereby repealed.

(2) The provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2007 listed in Schedule XIII shall remain in force for the regulation of the existing NBFCs licensed to undertake the business of venture capital investment and venture capital funds till 20th February 2010.

(3) The provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2007 listed in Schedule XIII shall stand repealed on 20th February 2010 and all NBFCs and funds regulated thereunder shall ensure that they comply with the requirements of the Private Equity and Venture Capital Fund Regulations, 2008 before 20th February 2010.

69. Transitional provisions.- [(1)][135] Save as otherwise specifically provided, nothing in these Regulations shall affect or be deemed to affect anything done, action taken, investigation or proceedings commenced, order, relaxation granted unless withdrawn, appointment, conveyance, mortgage deed, document or agreement made, fee paid or accrued, resolution passed, direction given, proceedings taken or instrument executed or issued, under the repealed Non-Banking Finance Companies and Notified Entities Regulations, 2007 and any such thing, action, investigation, proceedings, order, appointment, conveyance, mortgage deed, document, agreement, fee, resolution, direction, proceedings or instrument shall if in force at the coming into force of these Regulations and not inconsistent with any of the provisions of these Regulations, continue to be in force, and have effect as if it were respectively done, taken, commenced, made, directed, passed, given, executed or issued under these Regulations.

[(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.][136]

(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 Discretionary Portfolio and Non-Discretionary Portfolio of clients are managed separately from other activities;

(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) In the event of any dispute, the Investment Advisor shall produce evidence of compliance under Regulation 67 (1)." Vide SRO 1160(I)/2015 dated 25 November 2015

134 Inserted vide S.R.O. No. 814(I)/2011 dated September 05, 2011.

135 Inserted vide SRO 1160(I)/2015 dated 25 November 2015

136 Inserted vide SRO 1160(I)/2015 dated 25 November 2015

FORM I
[Regulation 46]

FORM OF APPLICATION FOR
REGISTRATION OF AN EXISTING INVESTMENT COMPANY

Islamabad, the ____20__.

To,
The Securities and Exchange Commission of Pakistan,
Islamabad.

Sir,

1. We hereby apply for the registration of..... (name of Investment Company) as a Notified Entity under section 282 CA of the Companies Ordinance, 1984 ("Ordinance") read with Regulation 44 or 46 of the Non-banking Finance Companies and Notified Entities Regulations, 2008 ("Regulations").

2. We hereby undertake that we are in compliance with the requirements of the Ordinance, Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and the Regulations.

3. We further undertake to take all steps necessary to comply the Regulations and any further requirements of the Commission.

4. The auditor's certificate verifying compliance with the minimum equity requirement under the Regulations and an attested copy of the contract with the Asset Management Company holding a valid licence for providing asset management services are attached.

Yours faithfully,
Signature of the Secretary or
a director of the applicant company

FORM II
[see Regulation 46]

CERTIFICATE OF REGISTRATION
OF AN INVESTMENT COMPANY AS A NOTIFIED ENTITY

Islamabad, the_____20__.

The Securities and Exchange Commission of Pakistan having considered the application for registration by.....(Name of the existing Investment Company) and being satisfied that the said.....(Name of the Investment Company) is eligible for registration hereby grants, this certificate of registration to ……in exercise of its powers under section 282 CA of the Companies Ordinance, 1984 and Regulation 46(2) of the Non-banking Finance Companies and Notified Entities Regulations, 2008.

Signature of the officer.

[137][FORM-III

[see Regulation 40A/40B(3)]

Securities and Exchange Commission of Pakistan
Specialized Companies Division

Registration No. SCD/ /Trustee Name/ /Year Islamabad, Dated: ……

CERTIFICATE OF REGISTRATION TO ACT AS TRUSTEE

The Securities and Exchange Commission of Pakistan, having considered the application for the grant of registration to act as Trustee of an Open-End or Closed-End Schemes submitted by **……. (Name of Trustee)** under sub-regulation (1) of Regulation 40B of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the Regulations) as amended from time to time and being satisfied that it would be in the public interest so to do, in exercise of powers conferred by sub-regulation (2) of Regulation 40B hereby grants the certificate of registration in the name of **……. (Name of Trustee)** to act as **Trustee** of an Open-End or Closed-End Schemes subject to the conditions stated herein below or as may be prescribed or imposed hereafter:

(i) **…… (Name of Trustee)** shall comply with the Regulations (as amended or replaced) and any directives, circulars, codes or notifications issued by the Commission to regulate the Trustees;

(ii) **…… (Name of Trustee)** shall submit annual, half yearly, quarterly or such other reports as specified in the applicable laws;

(iii) **…… (Name of Trustee)** shall submit system audit report as specified in the Regulations; and

(iv) This Registration is valid for a period of three years **w.e.f. …….(date of registration)** and shall be renewable every three years as specified in the Regulations.

Approving Authority

137 Inserted vide S.R.O. No. 814(I)/2011 dated September 05, 2011.

FORM IV
[see Regulation 40C]

Securities and Exchange Commission of Pakistan
Specialized Companies Division

Registration No. SCD/ /Trustee Name/ /Year Islamabad, Dated: ……

CERTIFICATE OF REGISTRATION TO ACT AS TRUSTEE

The Securities and Exchange Commission of Pakistan, having considered the application for the renewal of registration to act as Trustee of an Open-End or Closed-End Schemes submitted by **……. (Name of Trustee)** under sub-regulation (1) of Regulation 40C of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the Regulations) as amended from time to time and being satisfied that it would be in the public interest so to do, in exercise of powers conferred by sub-regulation (2) of Regulation 40C, hereby renews the certificate of registration of **……. (Name of Trustee)** to act as **Trustee** of an Open-End or Closed-End Schemes subject to the conditions stated herein below or as may be prescribed or imposed hereafter:

(i) **…… (Name of Trustee)** shall comply with the Regulations (as amended or replaced) and any directives, circulars, codes or notifications issued by the Commission to regulate the Trustees;

(ii) **…… (Name of Trustee)** shall submit annual, half yearly, quarterly or such other reports as specified in the applicable laws;

(iii) **…… (Name of Trustee)** shall submit system audit report as specified in the Regulations; and

(iv) This Registration is valid for a period of three years **w.e.f. ……(date of registration)** and shall be renewable every three years as specified in the Regulations.

Approving Authority

FORM V

[see regulation 40A(1)/40B(3)]

APPLICATION FOR OBTAINING CERTIFICATE OF REGISTRATION TO ACT AS TRUSTEE

Dated, the----------

To,

The Securities and Exchange
Commission of Pakistan, Islamabad.

Dear Sir,

We ---------- (Name of Trustee) hereby apply for grant of Certificate of Registration under Regulation 40A(1))/40B(3) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (Regulations) to act as Trustee of an Open-End or Closed-End Schemes.

2. We hereby furnish the following information, __

(a) Certified true copy of certificate of incorporation as a limited company;
(b) Certified true copies of the memorandum and articles of association
(c) authorised, subscribed and paid-up share capital of the company (sponsors' equity indicated separately);
(d) names and addresses of directors and number of shares held by each of them;
(e) directors' interest, direct or indirect, in any other company with details of such interest;
(f) details of persons or group controlling the company including major shareholders with number and value of shares held;
(g) names of holding, subsidiary and associated undertaking, if any;
(h) details of qualified staff engaged;
(i) reasons for selecting the proposed business, place of business with statistical data;
(j) system audit report, if available;
(k) business continuity plan;
(l) details regarding system controls;
(m) rating from a credit rating company if required; and
(n) additional facts in support of this application;

3. An affidavit as to the correctness of the above information by the chief executive is also furnished herewith.

4. We undertake to keep this information upto date by communicating changes or modifications therein within three days of such change or modifications.

5. A receipt of non-refundable processing fee as specified in schedule-II of the Regulations for the certificate of registration, deposited in ___(name of bank and branch) on ___(date) is enclosed.

Yours faithfully,
Name and Signature of the
Chief Executive Officer
of the proposed Trustee

FORM VI

[see regulation 40C(1)]

APPLICATION FOR RENEWAL OF REGISTRATION TO ACT AS TRUSTEE

Date: .....

Securities and Exchange Commission of Pakistan,

Islamabad

Dear Sir,

We, ---------- (Name of Trustee), hereby apply for renewal of the Registration to act as Trustee of an Open-End or Closed-End Schemes under Regulation 40C(1) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

The Registration granted or renewed earlier is due to expire on .....

Original receipt of challan evidencing payment of renewal fee as specified in the Schedule-II of the Regulations is enclosed.

It is requested that the Registration may be renewed w.e.f. ..... for a period of three years.

Yours faithfully,

Name and Signature of the
Chief Executive Officer
of the Trustee]

[**Schedule I**

Minimum Equity Requirement

[see Regulation 4]

Form of Business	**Minimum equity Requirement**
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.][138]

138 Substituted for the entire Schedule I vide SRO 1160(I)/2015 dated 25 November 2015

[Schedule-II

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

A) Application Fees under the Rules:

Form	Subject of application	Amount (in Rs.)
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%

]139

139 Substituted for the entire schedule II vide SRO 1160(I)/2015 dated 25 November 2015

Schedule-III

[see Regulation 44]

Trust Deed of Closed End Scheme

1. Proposed name and Category (e.g income, equity, money market, balanced etc.) of the Closed End Scheme.

2. Details of the participating parties.

3. Governing law.

4. For the trust :

   (a) a statement that the deed is binding on each certificate holder as if he had been a party to it and so to be bound by its provisions and authorizes and requires the trustee and the Asset Management Company to do as required of them by the terms of the deed;
   (b) a provision that a certificate holder is not liable to make any further payments after he had paid the purchase price of his certificates and that no further liability can be imposed on him in respect of the certificates which he holds;
   (c) a declaration that the property of the Closed End Scheme is held by the trustee on trust for the holders of the certificates *pari passu* according to the number of certificates held by each holder;
   (d) a statement that the trustee will report to certificate holders in accordance with the Regulations; and

5. Investment Objective and Policy of Closed-End Scheme

   a statement of the objective and outlines of investment policy of Closed End Scheme.

6. Role of Asset Management Company:

   List of the obligations of the Asset Management Company in accordance with the Rules, Regulations and any additional obligations depending upon the nature of the Collective Investment Scheme.

7. Appointment and change of Asset Management Company including-
   (a) a statement as to how the new Asset Management Company shall be appointed.
   (b) a statement of the manner in which the Asset Management Company may retire; and
   (c) a statement of the manner in which the Asset Management Company may be removed.

8 Role of trustee.

A list of the obligations of the trustee in accordance with Regulations and any additional obligations depending upon the nature of the Closed End Scheme.

9. Appointment and change of Trustee Including-

(a) a statement as to how the new trustee shall be appointed.
(b) a statement of the manner in which the trustee may retire;
(c) a statement of the manner in which the trustee may be removed; and

10. Investment restrictions:

A statement of restrictions on the investment of the property of the Closed End Scheme.

11. Any exceptions to the investment restrictions.

12. Valuation of property method of determining the value of the assets and liabilities and the net asset value of the Closed End Scheme.

13. Fees and charges:

The following must be stated, namely:-

(a) the maximum fee payable to the Asset Management Company out of the property of the Closed End Scheme, expressed as an annual percentage;
(b) remuneration payable to trustee;
(c) formation cost to be amortized against the property of the Closed End Scheme; and
(d) all other material fees and charges payable out of the property of the Closed End Scheme keeping in view the provisions of Regulations.

14. Disclosure of transactions with connected persons.

15. Distribution policy and date:

A statement to determine distributable income and the approximate date(s) in the calendar year on which annual income, if any, will be distributed.

16. Annual accounting period:

The date in the calendar year on which the annual accounting period ends.

17. Audit:

A statement for the appointment of auditor of the Closed End Scheme.

18. Base Currency
A statement of base currency of the Closed-End Scheme.

19. Modification of the trust deeds:

A statement of the means by which modifications to the trust deeds can be effected.

20. Revocation of Closed End Scheme:

A statement of the circumstances in which the Closed End Scheme can be revoked.

21. Distribution of proceeds on Revocation

A statement for the distribution of proceeds on Revocation.

SCHEDULE-IV

[see Regulation 54]

INFORMATION TO BE DISCLOSED IN THE OFFERING DOCUMENT OF A CLOSED END SCHEME

Notice: - This list is not intended to be exhaustive. The directors of the Closed End Scheme or the Asset Management Company are obliged to disclose any information which may be necessary for investors to make an informed judgment.

Constitution of the Closed End Scheme

1. Name, registered address and place and date of creation of the Closed End Scheme, with an indication of its duration if limited.

Investment objectives and restrictions

2. Details of investment objectives and policy, including summary of the investment restrictions. If the nature of the investment policy so dictates, a warning that investment in the Closed End Scheme is subject to abnormal risks, and a description of the risks involved.

Operators and principals

3. The names and registered addressed of the following parties, where applicable:
   (a) the directors of the Asset Management Company;
   (b) the trustee;
   (c) foreign promoters, if any;
   (d) the auditor;
   (e) the registrar;
   (f) the legal adviser;
   (g) the Shariah Adviser; and
   (h) the Custodian

4. Details and note on the performance of the Collective Investment Schemes under the management of the Asset Management Company.

5. Performance of the listed companies where the directors are holding similar office.

Characteristics of certificates

6. Minimum investment, if any.

7. A description of the different types of certificates.

8. It must be stated that no money should be paid to any intermediary except the certificate holder or his authorized representative.

Distribution policy

9. The distribution policy indicating the time period for distribution of dividend.

Fees and charges

10. The level of all fees and charges payable by the Closed End Scheme, including management fee, trustee fee and preliminary and floatation expenses.

Taxation

11. Details of exemptions, taxes levied on the Closed End Scheme's income and capital including tax, if any, deductible on distribution to certificate holders.

Reports and accounts

12. The date of the Closed End Scheme's financial year.

13. Particulars of the reports to be sent to the certificate holders.

Warnings

14. The following statements or warnings must be prominently displayed in the Offering Documents or prospectus,-

    (a) if you are in any doubt about the contents of this Offering Document or prospectus, you should consult your stock-broker, bank manager, legal adviser or other financial adviser; and

    (b) a warning that the price of certificates and the income from them (where income is distributed) may increase or decrease.

General information

15. A list of documents concerning the Closed End Scheme and the address where they can be inspected free of charge or purchased.

16. The date of publication of the prospectus or Offering Document.

17. A statement that the directors of Asset Management Company accepts responsibility for the information contained in the prospectus or Offering Document as being accurate at the date of publication.

18. Details of Closed End Schemes not authorized must not be shown in the Offering Document.

Winding up or revocation of Closed End Scheme

19. A summary of the circumstances under which the Closed End Scheme can be wound up or revoked.

Distribution of proceeds on winding upor revocation

20. A statement for the distribution of proceeds on , winding up or revocation.

SHEDULE V

[see Regulation 38 and 52]

DISCLOSURE REQUIREMENTS BY COLLECTIVE INVESTMENT SCHEMES

1. General

Annual report must contain statement of asset and liabilities, income statement, cash flow statement, distribution statement, statement of movement in unit or certificate holder fund, auditor's report, report of the trustee, report of the fund manager and all the information required in this schedule, Companies Ordinance, the Rules, Code of Corporate Governance and as per the applicable IAS or IFRS.

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) payable to Asset Management Company;
(vii) dividend payable;
(viii) total value of all assets;
(ix) total value of all liabilities;
(x) net asset value per unit or certificate;
(xi) number of units issued or certificates issued;
(xii) share holders Equity with authorized capital, issued capital and reserves (for Close End Fund); and
(xiii) contingences and commitments.

3. Income Statement.

(l) 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 Collective Investment Scheme, including,-

(a) fees paid to the Asset Management Company;
(b) remuneration of the custodian;
(c) remuneration of trustee;
(d) amortization of formation costs; director's fee and remuneration;
(e) safe custody and bank charges, auditor's remuneration;
(f) borrowing expenses, legal and other professional fees; and
(g) any other expense borne by the Collective Investment Scheme.

(5) Taxes.

(6) Net income to be carried forward for distribution.

4. Distribution statement

(i) Amount brought forward at the beginning of the period bifurcated into realized and unrealized gains.
(ii) Net income for the period.
(iii) Interim dividend and date of distribution.
(iv) Final dividend per share.
(v) Undistributed income carried forward bifurcated into realized and unrealized gains.
(vi) Amounts transferred to and from reserves.

5. Statement of movements in reserves or Unit holder' fund.

1. (Net asset value per share or unit as at the beginning of the period.
2. Net asset value per share or unit as at the end of the period.
3. Number of unit issued and the amount received upon such issue and total number of unit redeemed and the amount paid on redemption
4. Any item resulting in an increase or decrease in net asset value of the
5. Share or unit 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.
6. 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.

- Statement in the Notes that the financial statements are prepared in accordance with applicable Approved Accounting Standards and applicable statutory requirements or the deed or any regulatory requirements.

- Where unaudited financial statements are used, a declaration by the director(s) of the Asset Management Company that the financial statements give a true and fair view of the Collective Investment Scheme.

(A) Principal accounting policies:

(a) the basis of valuation of the assets of the Collective Investment Scheme 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;
(f) risk management polices and hedging activities entity shall describe its financial risk management objectives and polices, including its policy for hedging; and
(g) 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 Collective Investment Scheme.

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

(B) Transactions with connected persons:

Statement as to whether dealings with related parties have been transacted at arm's length basis. The following transactions should be disclosed, namely:-

(i) details of all transactions entered into during the period between the Collective Investment Scheme and the Asset Management Company, or any entity in which these parties or their connected persons have a material interest;

(ii) name of any director of the Asset Management Company or any connected person if such a person becomes entitled to profits from transactions in shares or from management of the Collective Investment Scheme and the amount of profits to which such person becomes entitled; and

(iii) the total number and value of units held by the Asset Management Company and its related parties.

(C) Borrowings:

(i) State whether the borrowings are secured or unsecured and the duration of the borrowings.

(ii) Disclosure shall be made of all contingent liabilities showing separately Underwriting Commitments, uncalled liability on partly paid shares and other commitments with specifying details.

(iii) If the free negotiability of any asset is restricted by statutory or contractual requirements, this must be stated.

(D)Unit holding, certificate holding or share holding pattern of Collective Investment Scheme

Category	**No of shareholders or Investors**	**Shareholding or Investment amount**	**% of total**
Individuals			
Associated Companies and Directors			
Insurance Companies			
Banks and DFIs			
NBFCs			
Retirement Funds			
Public Ltd Companies			
Others			

(E) Basis of fee

- Basis on which management fee has been paid to the Asset Management Company and the computation thereof; and
- basis for the fees and charges paid to the trustee.

(F) List of top 10 brokers or dealers by percentage of commission paid by Collective Investment Scheme in one accounting year.

(G) Details of member of investment committee with their qualification and experience.

(H) Name and qualification of fund manager and details of other Collective Investment Scheme managed by the same manager

(I) The date, names of persons attending each meeting of the board of directors.

(J) Latest Rating of the Collective Investment Scheme and Asset Management Company

7. Contents of the auditors' report.

The report of the auditor shall state,-

(i) Whether in the auditor's opinion the accounts prepared for that period have been properly prepared in accordance with the relevant provisions of the Regulations;

[(ia) The auditor has conducted audit of the collective investment scheme in accordance with the international standards on auditing as applicable in Pakistan.][140]

(ii) Without prejudice to the foregoing, whether in the auditor's opinion, a true and fair view is given of the disposition of the Collective Investment Scheme at the end of the period and of the transactions of the Collective Investment Scheme of the period then ended;

(iii) if the auditor is of the opinion that proper books and records have not been kept by the Collective Investment Scheme or the accounts prepared are not in agreement with the books and records of Collective Investment Scheme, that fact; and

(iv) 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. Fund Manager Report

(i) Description of the Collective Investment Scheme category and type.

(ii) Statement of Collective Investment Scheme's investment objective(s).

(iii) Explanation as to whether the Collective Investment Scheme has achieved its stated objective(s).

(iv) Statement of benchmark(s) relevant to the Collective Investment Scheme.

(v) Comparison of the Collective Investment Scheme's performance during the period compared with the said benchmarks.

(vi) Description of the strategies and policies employed during the period under review in relation to the Collective Investment Scheme's performance.

(vii) Disclosure of the Collective Investment Scheme's asset allocation as at the date of the report and particulars of significant changes in asset allocation since the last report (if applicable).

(viii) Analysis of the Collective Investment Scheme's performance.

(ix) Based on changes in total NAV and NAV per unit since the last review period or since commencement (in the case of newly established Collective Investment

140 Inserted vide SRO 1160(I)/2015 dated 25 November 2015

Scheme).

(x) Disclosure of the markets that the Collective Investment Scheme has invested in, including:-
   - review of the market(s) invested in during the period; and
   - statement of the returns on the investments by market(s) and by instruments.

(xi) Disclosure on distribution (if any), comprising:-
   - particulars of income distribution or other forms of distribution made and proposed during the period; and
   - statement on effects on the NAV before and after distribution is made.

(xii) Description and explanation of any significant changes in the state of affairs of the Collective Investment Scheme during the period and up till the date of the manager's report, not otherwise disclosed in the financial statements.

(xiii) Breakdown of unit holdings by size.

(xiv) Disclosure on unit split (if any), comprising:-
   - details of unit split exercise carried out during the period; and
   - statement on effects on the NAV per unit before and after the unit split exercise.

(xv) Disclosure of circumstances that materially affect any interests of the unit holders.

(xvi) Disclosure if the Asset Management Company or its delegate, if any, receives any soft commission (i.e. goods and services) from its broker(s) or dealer(s) by virtue of transactions conducted by the Collective Investment Scheme, disclosure of the following:-
   - identification of the goods and services received; and
   - manner in which the goods and services received were utilized.

For Index Funds only

- Statement on the characteristics and general composition of the index and, where applicable, concentration in any economic sectors and issuers.
- Comparison and explanation of the Collective Investment Scheme's performance compared with the actual index performance over the relevant period.

9. Trustee Report

1. Statement of opinion whether the Asset Management Company has managed the Collective Investment Scheme in accordance with the following:-
   - Investment limitations imposed on the Asset Management Company and the trustee under the trust deed and other applicable laws;
   - valuation or pricing is carried out in accordance with the deed and any regulatory requirement; and
   - creation and cancellation of units are carried out in accordance with the deed
   - and any regulatory requirement.
2. Statement on the shortcoming(s) that may have impact on the decision of the existing or the potential unit holders remaining or investing in the Collective Investment Scheme; and
3. Disclosure of the steps taken to address the shortcoming(s) or to prevent the recurrence of the shortcoming(s).

10. Investment portfolio.

(i) number or quantity of each holding together with the description and market value;
(ii) the total investment stated at cost;
(iii) the value of each holding as a percentage of the total investments;
(iv) statement of movements in portfolio holdings since the end of the preceding accounting period; and
(v) the carrying amount of investments (where applicable) categorised as follows:-

- fixed income and other debt securities;
- quoted and unquoted equity securities;
- derivatives (e.g. futures, options);
- other Collective Investment Schemes;
- foreign investments with details of type of instruments
- any other investments; and
- significant items included in other assets.

11. Performance Table.

A comparative table covering the last three financial years depicting the following:-

(a) total net asset value;
(b) net asset value per share or certificate;
(c) at the end of each financial year;
(d) selling price for units;
(e) repurchase price for units;
(f) highest and lowest selling and repurchase prices;

Note: Figures should be shown as ex-distribution (The portfolio composition of the Collective Investment Scheme, (e.g. distribution among industry sectors, markets and category of investments).

(g) total return of the Collective Investment Scheme, and the breakdown into capital growth and income distributions;
(h) disclosure on distribution (if any), comprising the following:-

- Distribution per unit (gross and net) for interim and final distribution, shown separately; and
- Highlighting the distribution dates;

(i) average annual return of the Collective Investment Scheme measured over specific periods to the date of the report, for one year, two years and three years, or from end of offer period (must disclose launch date);
(j) statement that past performance is not necessarily indicative of future performance and that unit prices and investment returns may go down, as well as up; and
(k)weighted average portfolio duration in case of income and money market fund.

Schedule VI

[see Regulation 44]

INFORMATION TO BE CONTAINED IN THE APPLICATION FOR REGISTRATION OF A COLLECTIVE INVESTMENT SCHEME

Details of the Collective Investment Scheme:-

1. Name of the Collective Investment Scheme.

Collective Investment Scheme type

Collective Investment Scheme Category

2. Structure of the Collective Investment Scheme.

Any distinctive feature of the proposed Collective Investment Scheme

3. Proposed subscription date and place.

4. A Pricing Mechanism; Forward or Historic

5. Investment objectives.

a) Investment Strategy
b) Asset Allocation
c) Benchmark

6. Details of opportunities for investment in the market

Type of Instruments	**Availability of Investment Instrument as at XX/XX/20XX***
Equities	(No. of counters, market capitalization etc)
Debt Securities	No of Issues, amount of outstanding etc)
Money Market Instruments	
Other Please	

*Please indicate source of date for the respective type of investment

7. Details of the parties to the Collective Investment Scheme:-

The Asset Management Company:

(a) Name.

(b) Registered or business address.

(c) Name of the ultimate holding company, if any.

(d) The most recent audited financial.

(e) Previous approval of the Commission to manage authorized Collective Investment Schemes.

Following details of existing Collective Investment Scheme of the Asset Management Company

a) Details of investors or Unit Holders
(Collective Investment Scheme wise details)

Type of investor	No of investors	Amount of investment	% of total Net Asset Value
Banks			
DFIs			
NBFCs			
Pensions and Gratuity Fund			

Other Corporate investors			
Individual Investor			
Total			

b) <u>Details of Investors with more than 10% holding</u>
<u>(Collective Investment Scheme wise details)</u>

Name of Investors	Number of unit hold	Amount of Investment	% of toal Net Asset Value or share holding	Core Investor (Yes or No)

c) <u>Details of Investment of Banks, DFIs, and NBFCs</u>
<u>(Collective Investment Scheme wise details)</u>

Name of Investors	Number of unit	Amount of Investment	% of toal Net Asset Value or share holding	Core Investor (Yes or No)

d) Comparison of performance of existing Collective Investment Schemes of Asset Management Company with its peer in industry (for at least last two years where applicable)

Name of Collective Investment Scheme	Type of Collective Investment Scheme	Total Net Assets	% Growth of net assets in last 1 year of own scheme	Average % Growth of net assets value in last 1 year of peer group

(peer means average of same type of Collective Investment Schemes)

e) Product distinction between the proposed Collective Investment Scheme and the existing Collective Investment Scheme s currently being managed by the Asset Management Company

8. The trustee:

(a) Name.
(b) Registered or business address.
(c) Name of the ultimate holding company, if any.
(d) Previous approval of the Commission as trustee of authorized Closed End and Open End Schemes. If no, names of the directors and most recent audited financial report.
8. For the trustee and Asset Management Company:
(a) Which, if any, of these companies are connected persons?
(b) Name anyone who holds appointments, as director or officer, with more than one of these companies.

9. For the trustee and Asset Management Company:

A. Distribution company:
(a) Name.
(b) Registered or business address.
(c) Name of ultimate holding company.
A marketing plan for the proposed Collective Investment Scheme which in the opinion of the Asset management necessary to enable the Collective Investment Scheme to reach a viable size.

a) Viable size of the Collective Investment Scheme
b) Marketing strategy
c) Target market or group of investors
d) Prospective marketing resources and distribution channels
e) Minimum level of subscription of the Collective Investment Scheme as well as basis for determining the minimum level

B. The auditor:
(a) Name.
(b) Registered or business address.

C. The principal broker:
(a) Name.
(b) Registered or business address.
(c) The approximate percentage of the Collective Investment Scheme 's transactions in value of securities carried out by the principal broker within the latest financial year of the Closed End Scheme.
(d) Whether the trustee, the directors of the Closed End Scheme or the Asset Management Company is a connected person of the principal broker?

D. Legal Adviser:
(a) Name.
(b) Registered or business address.

SCHEDULE – VII

[see Regulation 44]

CONTENTS OF THE TRUST DEED OF OPEN END SCHEMES

1. Name and Category (e.g. income, equity, money market, balanced, etc.) of Open-End .

2. Participating parties:

   A statement to specify the participating parties including the Asset Management Company (management company) and trustee.

3. Governing law.

4. For the trusts,-

   (a) a statement that the deed is binding on each holder as if he had been a party to it and so to be bound by its provisions and authorizes and requires the trustee and the management company to do as required of them by the terms of the deed;

   (b) a provision that a holder is not liable to make any further payments after he had paid the purchase price of his units and that no further liability can be imposed on him in respect of the units which he holds;

   (c) a declaration that the property of the scheme is held by the trustee on trust for the holders of the units *pari passu* according to the number of units held by each holder. (This may be modified as appropriate for schemes offering income and accumulation units.);

   (d) a statement that the trustee will report to unit holders in accordance with the Regulations; and

5. A statement of the objective and outline of investment policy of the Open End Scheme.

6. Role of management company:

   A statement of list the obligations of the management company in accordance with the Rules and Regulations.

7. Appointment and change of management company:

   (a) a statement of the manner in which the management company may retire;
   (b) a statement of the manner in which the management company may be removed; and
   (c) a statement as to how the new management company shall be appointed.

8. Role of trustee:

A list of the obligations of the trustee in accordance with Regulations and any additional obligations depending upon the nature of the Open End Scheme.

9. Change of Trustee:

(a) a statement of the manner in which the trustee may retire;
(b) a statement of the manner in which the trustee may be removed; and
(c) a statement as to how the new trustee shall be appointed.

10. Investment restrictions:

A statement listing restrictions on the investment of the deposited property and any exceptions granted to investment restrictions.

11. Borrowing restrictions:

(a) a statement of exceptions to borrowing limits, if any; and

(b) a statement about any exceptions to borrowing limits depending upon the nature of the Open End Scheme, if any.

12. Valuation of property and pricing:

The following rules on valuation of property and pricing must be stipulated,-

(a) the method of determining the value of the assets and liabilities of the property of the Open End Scheme and the net asset value accordingly;

(b) the method of calculating the issue and redemption prices; and

(c) the method of pricing and the circumstances under which it can change.

13. Dealing, suspension and deferral of dealing:

The following must be stated,-

(a) the circumstances under which the dealing of units can be deferred or suspended;

(b) the maximum interval between the receipt of a properly documented request for redemption of units and the issue of payment instrument for redemption money to the holder not to exceed six working days; and

(c) the circumstances under which the dealing may be suspended.

14. Fees and charges:
The following must be stated,-

(a) the maximum percentage of the charge payable by the investor on subscription, redemption and conversion of units;

(b) the maximum fee payable to the management company out of the property of the Collective Investment Scheme, expressed as an annual percentage;

(c) remuneration payable to trustee;

(d) formation cost to be amortized against the property of the Open End Scheme; and

(e) all other material fees and charges payable out of the property of the Open End Scheme.

15. Disclosure of transactions with connected persons:

16. Distribution policy and date:

A statement about distributable income and the approximate date in the calendar year on which annual income, if any, will be distributed.

17. Annual accounting period:

The date in the calendar year on which the annual accounting period ends.

18. Audit

A statement about the audit and appointment of auditors of the Open End Scheme.

19. Base currency:

A statement of the base currency of the Open End Scheme.

20. Modification of the Trust Deed:

A statement of the means by which modifications to the Trust Deed can be effected.

21. Revocation of Open-End Scheme:

A statement of the circumstances in which the Open-End Scheme can be revoked.

22. Distribution on Revocation of Open-End Scheme:

A statement explaining the manner in which the proceeds of the Open-End Scheme shall be distributed on revocation.

SCHEDULE – VIII

[see Regulation 54]

INFORMATION TO BE DISCLOSED IN THE OFFERING DOCUMENT BY OPEN END SCHEMES

Notice:- This list is not intended to be exhaustive. The directors of the Asset Management Company are obliged to disclose any information which may be necessary for investors to make an informed judgment.

1. Constitution of the Open End Scheme:

Name, registered address and place and date of creation of the OpenEnd Scheme, with an indication of its duration if limited.

2. Investment objectives and restrictions:

Details of investment objectives and policy, including summary of the investment and borrowing restrictions. If the nature of the investment policy so dictates, a warning that investment in the Open-End Scheme is subject to abnormal risks, and a description of the risks involved.

3. Operators and principals:

The names and registered addressed of the following parties, where applicable,__

(a) the directors of the Asset Management Company;
(b) the trustee;
(c) foreign promoters, if any;
(d) the distribution company;
(e) the auditor;
(f) the registrar; and
(g) the legal adviser.
(h) the Shariah Adviser

4. Details and note on the performance of the Collective Investment Schemes under the management of the Asset Management Company.

5. Performance of the listed companies where the directors are holding similar office.

6. Characteristics of units:

(a) minimum investment, if any;
(b) a description of the different, type of units;
(c) frequency of valuation and dealing, including days;
(d) application and redemption procedures;
(e) the mode of the unit price announcement;
(f) procedure for subscribing, redeeming or conversion of units;

(g) the maximum interval between the request for redemption and the issue of payment instrument for the redemption proceeds;
(h) a summary of the circumstances in which dealing in units may be deferred or suspended; and
(i) it must be stated that no money should be paid to any intermediary except the unit holder or his authorized representative.

7. Distribution policy:

The distribution policy indicating the time period for distribution of dividend as stock or cash depending on tax laws and interest of unit holders.

8. Fees and charges:

(a) the level of all fees and charges payable by an investor, including all charges levied on subscription and redemption and conversion, and

(b) the level of all fees and charges payable by the Collective Investment Scheme, including management fee, advisory fee, trustee fee and preliminary and floatation expenses.

9. Taxation:

Details of exemptions, taxes levied on the Collective Investment Scheme's income and capital including tax, if any, deductible on distribution to unit holders.

10. Reports and accounts

(a) The date of the Open End Scheme's financial year; and

(b) Particulars of the reports to be sent to the unit holders;

11. Warnings

The following statements or warnings must be prominently displayed in the offering documents,-

(a) if you are in any doubt about the contents of this Offering Document, you should consult your stock-broker, bank manager, legal adviser or other financial adviser.

(b) a warning that the price of units and the income from them (where income is distributed) may go increase or decrease.

12. General information

(a) a list of constitutive documents and the address where they can be inspected free of charge or purchased;

(b) the date of publication of the Offering Document;

(c) a statement that the Directors of Asset Management Company accept responsibility for the information contained in the Offering Document as being accurate at the date of publication;

(d) details of Collective Investment Schemes not authorized must not be shown in the Offering Document.

13. Revocation of Open-End Scheme

A summary of the circumstances in which the OpenEnd Scheme can be revoked.

14. Distribution of proceeds on revocation

A statement for the distribution of proceeds on liquidation, winding up or termination.

[**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	**Trainings**
K	**Experience:** 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.	**Status of directorship Shareholder** ☐ **Nominee** ☐ **Name of the shareholders/ Group of shareholders he is representing** **Nature of directorship** Executive ☐ Non-executive ☐ **Independent** ☐ **Non-independent** ☐ 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)

	(2) 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 or any plea bargain with NAB during the last ten years 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
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.

"**Annexure B**

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)

(Annexure C)

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)][141]

141 Substituted for the entire Schedule IX vide SRO 1160(I)/2015 dated 25 November 2015

[**Schedule IXA**

A. CAPITAL ADEQUACY RATIO
[see Regulations 17A]

Items	**Amount**
Core Capital	
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)	
Less:	
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)	
Supplementary Capital	
2.1 Revaluation reserves on investments – eligible up to 50%	
2.2 Sub-ordinated debt	
2.3 Sub-Total (2.1 to 2.3)	
Total Capital (1.15 + 2.3)	
Capital Adequacy Ratio	
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 secured against liquid,	xx		150%	xx

	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
Financial & other guarantees 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%
Performance related obligations 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%
Underwriting commitments The commitments which require the underwriter to purchase the securities if the issuer failed to sell.	50%
Lending/posting of securities as collateral The lending or posting of securities as collateral. This includes repurchase/reverse repurchase agreements and securities lending/borrowing transaction.	100%
Other Off-balance sheet exposure (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
1	AAA AA+ AA AA-

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

]142

142 Inserted vide SRO 1160(I)/2015 dated 25 November 2015

[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 installment, mark-up, interest, profit or principal is overdue by one year or more from the due date.	As above.	Provision of 50% 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.

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, mark-up, interest, profit or principal is overdue by60 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 25% 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.

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.][143]

143 Substituted with the entire Schedule X vide SRO 1160(I)/2015 dated 25 November 2015

[**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.][144]

144 Substituted for the entire Schedule XI vide SRO 1160(I)/2015 dated 25 November 2015

[**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:

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

4. Corporate status:

Sole Proprietorship	Partnership	Public/Private Company

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

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 1st Year	During 2nd Year	During 3rd Year

17. Share prices of the borrowing entity:

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

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

Owner's Name	Particulars of Assets	Market Value	Particulars of 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/NBFC/NBFCR/2008

(Abdul - Rehman Qureshi)
Advisor/Secretary

145 Substituted for the entire Schedule XII vide SRO 1160(I)/2015 dated 25 November 2015