Information Handout

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SEC ISSUES PRUDENTIAL REGULATIONS FOR NON-BANKING FINANCE COMPANIES

The Securities and Exchange Commission of Pakistan (SEC) has issued the prudential regulations for Non-Banking Finance Companies (NBFCs) in exercise of powers conferred by the Companies Ordinance, 1984 which would come into effect immediately. Mr. Etrat H. Rizvi, Commissioner (Specialized Companies Division), SEC announced the same at a press briefing in Islamabad on Wednesday.

The said prudential regulations were necessitated pursuant to the amendments in the Companies Ordinance, 1984, whereby all the existing NBFIs with the exception of Modarabas and Development Financial Institutions (DFIs) have been re-classified as NBFCs and are being regulated by SEC w.e.f. November 15, 2002. The objective behind the issuance of these Regulations is to introduce a uniform set of Regulations for all NBFCs in order to improve their effective risk management capabilities and to promote corporate governance in the non-bank financial sector.

The Commissioner informed that these Regulations have been finalized after extensive consultation with various industry associations, namely Leasing Association of Pakistan (LAP), Investment Banks Association of Pakistan (IBAP), Modaraba Association of Pakistan (MAP). He said that bring harmony and uniformity within the financial sector, these regulations were also discussed with the SBP.

The Prudential Regulations for NBFCs have been divided into four segments. Part-I contains a comprehensive set of definitions for non-banking finance companies, covering all their activities/functions. The Part-II lays down guidelines for Risk Management in respect of corporate borrowers and individual borrowers. Part III covers the regulations pertaining to the operation of NBFCs while Part IV encompasses the Know Your Customer (KYC) and anti-money laundering issues. He clarified that Part II & III of these Regulations shall not apply to NBFCs operating solely or in any combination therein, as asset management company, investment advisor or a venture capital company. However, Part IV shall apply to all NBFCs. Salient features of the Regulations include the followings:

- Definition of group has been introduced alongwith exposure limit of 50% of NBFC's equity to a single group provided that fund base exposure does not exceed 35% of NBFC equity.

- Margin requirements against facility to be granted by NBFCs have been reviewed and the same have been reduced.

- A separate set of Regulations for housing finance facilities to individuals have been incorporated in order to promote the housing finance sector.

- Criteria for Provisions for non-performing assets of NBFCs have been reviewed and conditions for reversal of provisions have been included.

- In order to prevent the criminal use of NBFCs for the purpose of money laundering and other unlawful activities, a separate section has also been introduced. Further, a fit and proper test for appointment of directors and chief executive of NBFCs alongwith requisite information has also been incorporated.

The new set of Prudential Regulations is being circulated to all the concerned quarters and has also been placed on SEC Website www.secp.gov.pk for the information of general public.

The Commissioner (Specialized Companies) further informed that Prudential Regulations for Modarabas shall be notified within this months for which consultations with Modaraba Association of Pakistan and stakeholders have been completed.