

# PRESS RELEASE

## Prudential Regulations for Modarabas Revised

**ISLAMABAD – 28 January 2004:** The Securities and Exchange Commission of Pakistan (SEC) has issued revised prudential regulations for Modarabas in exercise of powers conferred by the Modaraba Ordinance, 1980, which would come into effect immediately. The objective behind the revision of existing Regulations is to provide a level playing field to all participants of the non-bank financial sector including the Modarabas.

These Regulations have been finalized after consultation with the industry association – the Modaraba Association of Pakistan (MAP). The revised set of prudential regulations would contribute towards improving the effective risk management capabilities and promoting corporate governance in the Modaraba sector.

The Revised Prudential Regulations for Modarabas have been divided into four segments. Part-I contains a comprehensive set of definitions covering all their activities/functions; 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 modarabas; and Part IV encompasses the Know Your Customer (KYC) and anti-money laundering issues. Salient features of the regulations include the following:

- A complete set of definitions has been introduced keeping in view the definitions provided in the prudential regulations for NBFCs.
- Margin requirements against facility to be granted by the Modarabas 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 Modarabas have been reviewed and conditions for reversal of provisions have been included.
- In order to prevent the criminal use of Modaraba 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 Modaraba companies along with 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 the SEC website [www.secp.gov.pk](http://www.secp.gov.pk) for the information of general public.