

Press Release

Conditions Applicable to Promoters/Majority Shareholders of NBFCs

Islamabad – 15 June 2006: The Securities and Exchange Commission of Pakistan (SECP) has warned the promoters/majority shareholders of Non-Banking Finance Companies (NBFCs) to refrain from indulging in business practices detrimental to the interests of minority shareholders.

The SECP has observed that promoters/majority shareholders have, at times, disposed off their controlling shares in NBFCs without prior approval of the Commission. Furthermore, shares of NBFCs held by promoters/majority shareholders have also been used to raise financing through pledges, in the futures market, or through the Continuous Funding System (CFS).

The Commission has issued a circular to inform and to ensure that the promoters/majority shareholders having shares (subscribed or allotted/issued as right or bonus shares etc) of NBFCs comply with the conditions listed here under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 thereby protecting the interests of minority stakeholders:

- (i) Promoters'/majority shareholders' shares shall be deposited either with NBFC Department in the Commission or placed in an account at the Central Depository Company of Pakistan Limited (CDC).

In case of physical shares lodged with the NBFC Department, such shares shall be in a jumbo lot duly stamped as "Not to be sold, transferred, pledged, mortgaged, or encumbered in any manner whatsoever without prior approval of the Commission".

In case of shares placed with CDC, each promoter/majority shareholder shall open an account (Sub-participant or Investor Account) at CDC for depositing their shares and confirm to the Commission the number of accounts with details within seven days. The account opened at CDC will be of a blocked nature and no withdrawal from the same will be allowed without prior written permission of the Commission. Moreover, charges for opening and operating these accounts will be borne by the promoters/majority shareholders.

- (ii) Any subsequent allotment/subscription, either in the form of right or bonus shares or in any other manner whatsoever, to the existing shareholding of promoters/majority shareholders shall also be deposited with the Commission or CDC in a similar manner.
- (iii) The promoters/majority shareholders shall not dispose off their shares in any manner whatsoever for a minimum period of three years after commencement of

business or acquisition of majority shareholding, as applicable, and thereafter only with the prior approval in writing of the Commission; and

- (iv) The promoters/majority shareholders/NBFCs shall not raise any financing against such shares and shall also not keep these shares encumbered.

The circular has been disseminated to all concerned quarters and placed on the SECP's website www.secp.gov.pk.