



SECP

**SECURITIES AND EXCHANGE  
COMMISSION OF PAKISTAN**

# **REPORTING AND APPROVAL OBLIGATIONS UNDER THE MODARABA LAW**

A practical guide for Compliance by the  
Modaraba Companies and Modarabas

**MAY 2024**



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## Reporting and Approval Obligations for Modaraba Companies and Modarabas

### PREAMBLE

The modaraba companies and modarabas are expected to comply with a number of reporting and approval requirements outlined in the regulatory framework for modarabas. Similarly, there is need to provide further clarity regarding the timelines and as to whom to submit reports, i.e. the Registrar Modaraba (the “Registrar”) or to the Securities and Exchange Commission of Pakistan (the “Commission”).

Given the foregoing, there is need to introduce a practice guide for compliance by the modaraba companies and modarabas and, at the same time, assist monitor and compliance of the modaraba companies and modarabas with the regulatory requirements. This guide, therefore, assembles and consolidates reporting obligations and approval requirements under the modaraba law that include the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (the “Modaraba Ordinance”), the Modaraba Companies and Modaraba Rules, 1981 (the “Modaraba Rules”), the Modaraba Regulations, 2021 (the “Modaraba Regulations”), the Consolidated Circular notified vide S.R.O.2310(I)/2022 dated December 28, 2022 (the “Consolidated Circular”), and the other circulars, directions, and conditions issued or imposed under the modaraba laws. The legal and regulatory obligations of the modaraba companies and modarabas, other than the modaraba regulatory framework, such as applicable provisions of the Companies Act, 2017 by virtue of Section 505 of the Companies Act, 2017 and the Securities Act, 2015, including subsidiary legislation made thereunder, obligations under the listing regulations of PSX, etc., have not been covered in this guide.

The Commission is committed to advancing Islamic finance principles and revitalizing the Modaraba sector. Islamic finance is seen as ethical and inclusive, promoting sustainable economic growth and financial inclusion. The Commission is implementing initiatives to create an enabling environment for the growth of the Modaraba sector, facilitating the expansion of Islamic financial products and services, ensuring compliance with ethical standards, and fostering innovation and competitiveness. It is expected that this guideline will provide a better understanding of regulatory obligations under the modaraba law, facilitate compliance, and enhance regulatory oversight. This can further pave the way for bringing operational efficiency to the modaraba sector and an effective regulatory framework.

This Guide has been prepared with the objective of facilitating understanding and compliance with the Modaraba Law and shall not be construed as a legal document. While discharging the regulatory obligations, relevant provisions must be referred to, and where needed, legal advisors may be consulted.

## CHAPTER 1:

### REPORTING OBLIGATIONS OF THE MODARABA COMPANIES AND MODARABAS

#### 1.1. Preparation and submission of financial statements

The modaraba companies are required, to prepare and submit five copies of the annual financial statements to the Registrar, within six months of the close of the modaraba's accounting year. The aforementioned financial statements must include a statement of financial position, a profit and loss and other comprehensive income, a cash flow statement, and a statement of changes in equity for each modaraba.

*[Reference: Section 14 of the Modaraba Ordinance and rule 9 of the Modaraba Rules]*

#### 1.2. Submission of quarterly financial statements

Every modaraba company, shall prepare and submit the three copies of the quarterly financial statements of the modaraba. The quarterly financial statements of the modarabas for first and third quarter, shall be submitted within the period of thirty days of the close of first and third quarters of its year of accounts; and within sixty days of the close of its second quarter of its year of accounts.

*[Reference: Rule 10 of the Modaraba Rules read with Chapter 15 of the Consolidated Circular]*

#### 1.3. Pattern of holding of certificates by certificate holders

The modaraba companies shall circulate along with the audited financial statements, the information about the pattern of holding of the certificates by the certificate-holders, within six months of the close of the modaraba's accounting year.

*[Reference; Rule 14 of the Modaraba Rules]*

#### 1.4. Submission of annual performa

The modaraba companies shall submit the performa enumerating the information with regard to modaraba companies and modarabas. within 30 days of the end of each financial year.

*[Reference: Sub-clause 1.6 of Chapter 1 of the Consolidated Circular]*

#### 1.5. Submission of Statement of Compliance with Listed Companies (Code of Corporate Governance) Regulations, 2019

Every modaraba company, shall annexed the statement of compliance with Listed Companies (Code of Corporate Governance) Regulations, 2019 (the "CCG Regulations") to the audited financial statements, within six months of the close of the modaraba's accounting year.

*[Reference: Regulation 22 of the Modaraba Regulations and regulation 36 of CCG Regulations]*

#### 1.6. Submission of Shariah review report

The Shariah review report duly prepared by the Shariah advisor of the modaraba as per the prescribed format shall be made part of audited financial statements of the modaraba.

*[Reference: Sub-clause (2) of Clause 13.8 of Chapter 13 and Annexure III of Consolidated Circular]*

### **1.7. Reporting of overdue, default and recovery**

Every modaraba shall provide a list of defaulters as well as a list of rescheduled and restructured facilities in the prescribed format.

A progress report on the recovery in relation to the targets shall also be submitted to the Registrar on quarterly basis.

*[Reference: Sub-regulation (1) and (5) of regulation 16 of the Modaraba Regulations]*

### **1.8. Filing of annual list of certificate holders and summary**

Every modaraba shall annually submit to the Registrar an annual list of certificate holders and its summary, within eighteen months from its flotation, and thereafter once at least in every year, on the date of the re-opening of the register of certificate holders relative to declaration of final dividend or, where there is no such date in any particular year as on 31st December of the year.

*[Reference: Rule 23 of the Modaraba Rules]*

### **1.9. Submission of time-bound action plan by the modaraba that has already raised funds through COM**

A modarabas that has already raised funds through COM and is not in compliance with minimum equity requirement shall gradually enhance its minimum equity requirement of rupees five hundred million within a period of three years (in accordance with first amendments in the Modaraba Regulations dated August 15, 2022); and submit to the Commission, a time-bound action plan with quarterly targets, with the approval of the board of directors. It shall also ensure that the quarterly targets are met on time and that the minimum credit rating is maintained within three years of the notification of the first amendments to the Modaraba Regulations.

*[Reference: Sub-regulation 1 of regulation 17 of the Modaraba Regulations]*

### **1.10. Reporting of total amount of outstanding COM and the securities held there against**

The modaraba shall report to the Registrar, on monthly basis the total amount of its outstanding COM and the securities held there against. This requirement shall also be applicable on a COM raising modaraba whose permission to issue COM has been suspended or cancelled till the time all the COMs have been repaid, and the Commission has authorized the removal of the suspension or cancellation.

*[Reference: Sub-regulation (h) of the Modaraba Regulations]*

### **1.11. Reporting relating to places of business (branches)**

The modaraba shall report to the Commission details of the opening of a new branch or place of business 15 days prior to the opening of the subject branch; report the closure of a branch to the Commission with specific reasons at least 90 days prior to the closure of the branch; and report the shifting or relocation of the existing branch to a new location 15 days prior to such shifting or relocation.

*[Reference: Regulation 31 of the Modaraba Regulations]*



### 1.12. Publication and submission of notice of annual review meeting

All modarabas are required to publish 21 days' notice of the annual review meeting, indicating the right to attend, in one widely circulated English and one Urdu language newspaper in the province where the modaraba's registered office is located. A copy of the annual review meeting notice published in the newspapers should also be submitted to the Registrar within 7 days of its publication.

*[Reference: Sub-clause (iv) of clause 12.1 of Chapter 12 of the Consolidated Circular]*



### 1.13. Filing of monthly returns through specialized companies return system

All modaraba companies and modarabas are required to file their monthly statements to the Commission by the 10th of each month through the specialized companies return system (SCRS).

*[Reference: Chapter 16 of the Consolidated Circular]*



### 1.14. Filing of semi-annual returns by modarabas regarding information on related party exposure

All modarabas are required to submit periodic reporting of information pertaining to their exposure in related parties on a six-month basis. The information shall be submitted in a manner that for the period ended on 30th day of June every year, the information should be submitted by the following 30th day of September while for the period ended on 31st day December every year the information should be submitted to the Commission by the following 31st day of March.

*[Reference: Chapter 17 of the Consolidated Circular]*



### 1.15. Preparation and submission of financial statements of modaraba company that include modaraba accounts

A modaraba company's financial statements to include the audited financial statements and other prescribed reports and must be submitted to the Registrar, within six months of the end of the modaraba's accounting year.

*[Reference: Section 231 of the Companies Act of 2017]*



### 1.16. Reporting on removal of chief executive officer

Removal the chief executive of the modaraba companies shall be reported to the Registrar at least one month before removing the chief executive.

*[Reference: Proviso 2 of regulation 26 of the Modaraba Regulations]*



### 1.17. Reporting under Fit and Proper Criteria of Directors and CEO

The modaraba companies are required to submit stipulated documents to their chief executive and directors within 30 days of the end of each calendar year. Individuals must report any adverse changes to their fitness and proprietary status to their modaraba company within three business days, and within seven business days to the Registrar. Modaraba companies must ensure that their CEO, directors, and key executives meet fit and proper criteria. If non-compliance occurs, the modaraba company will stop their functions, inform the Registrar, and initiate replacement processes.

*[Reference: Clause 9, 10 and 11 of the application and scope of Schedule I of Fit and Proper Criteria of the Modaraba Regulations]*



## Summary of Reporting Obligations of the Modaraba Companies and Modarabas

Sr. #	Reporting Obligation	Ref. of Law	Time Line	Description	Report to
1.	Preparation and submission of financial statements	Section 14 of the Modaraba Ordinance and rule 9 of the Modaraba Rules	Within six months of the end of the accounting year	Annual financial statements which include a statement of financial position, profit and loss, cash flow, and equity changes.	Registrar
2.	Submission of quarterly financial statements	Rule 10 of the Modaraba Rules read with Chapter 15 of the Consolidated Circular	Within thirty days of the first and third quarters' close, and sixty days of the second quarter's close.	three copies of their quarterly financial statements	Registrar
3.	Pattern of holding of certificates by certificate holders	Rule 14 of the Modaraba Rules	Within six months of the end of the financial year.	Audited report that include information on certificate-holder holding patterns	Registrar
4.	Submission of annual performa	Sub-clause 1.6 of Chapter 1 of the Consolidated Circular	Within 30 days of the end of each financial year.	A return performa enumerating information about Modaraba Company and Modarabas	Registrar
5.	Submission of Statement of Compliance with Listed Companies (Code of Corporate Governance) Regulations, 2019	Regulation 22 of the Modaraba Regulations and regulation 36 of CCG Regulations	Within six months of the accounting year's end	Modaraba companies are required to include a statement of compliance with the Listed Companies (Code of Corporate Governance) Regulations, 2019 in their audited financial statements.	Registrar
6.	Submission of Shariah review report	Sub-clause (2) of Clause 13.8 of Chapter 13 and Annexure III of Consolidated Circular	Within six months of the end of the accounting year	The Shariah review report, prepared by the modaraba's Shariah advisor, will be included in the modaraba's audited financial statements.	Registrar
7.	Reporting of overdue, default and recovery	Sub-regulation (1) and (5) of regulation 16 of the Modaraba Regulations	Quarterly	A list of defaulters, rescheduled facilities, and quarterly progress reports on recovery.	Registrar

Sr. #	Reporting Obligation	Ref. of Law	Time Line	Description	Report to
8.	Filing of annual list of certificate holders and summary	Rule 23 of the Modaraba Rules	on the register's re-opening date or December 31st.	An annual certificate holders list and summary to the Registrar within 18 months of flotation, and annually on the register's re-opening date or December 31st.	Registrar
9.	Submission of time-bound action plan by the modaraba that has already raised funds through COM	Sub-regulation 1 of regulation 17 of the Modaraba Regulations	Within three years, following first amendments in the Modaraba Regulations and thereafter quarterly	Modarabas raising funds through COM must gradually increase their minimum equity requirement to rupees five hundred million. They must submit a time-bound action plan with quarterly targets to the Commission, maintain a minimum credit rating.	Commission
10.	Reporting of total amount of outstanding COM and the securities held there against	Sub-regulation (h) of the Modaraba Regulations	Monthly	Outstanding COM and securities to the Registrar, including those with suspended or cancelled COM permissions, until all COMs are repaid and authorized by the Commission.	Registrar
11.	Reporting relating to places of business (branches)	Regulation 31 of the Modaraba Regulations	15, 90 and 15 days in advance, respectively	The reporting of new branch opening details 15 days in advance, closure reasons 90 days in advance, and relocation of existing branches 15 days in advance to the Commission.	Commission
12.	Publication and submission of notice of annual review meeting	Sub-clause (iv) of clause 12.1 of Chapter 12 of the Consolidated Circular	within 7 days of publication of notice.	Publish 21-day notice of their annual review meeting in English and Urdu newspapers, and submit a copy to the Registrar	Registrar
13.	Filing of monthly returns through specialized companies return system	Chapter 16 of the Consolidated Circular	Monthly, by 10th of each month	Submit their monthly statements to the Commission by the 10th of each month via the specialized companies return system (SCRS).	Commission

Sr. #	Reporting Obligation	Ref. of Law	Time Line	Description	Report to
14.	Filing of semi-annual returns by modarabas regarding information on related party exposure	Chapter 17 of the Consolidated Circular	By September for June and March for December	Submit six-month reports on their exposure to related parties, with submissions due.	Registrar
15.	Preparation and submission of financial statements of modaraba company that include modaraba accounts	Section 231 of the Companies Act of 2017	Within six months of the end of its accounting year	A modaraba company must submit its financial statements, including audited and prescribed reports.	Registrar
16.	Reporting on removal of chief executive officer	Proviso 2 of regulation 26 of the Modaraba Regulations	One month prior to the removal	Notify the removal of the chief executive of modaraba companies at least one month prior to the removal.	Registrar
17.	Reporting under Fit and Proper Criteria of Directors and CEO	Clause 9, 10 and 11 of the application and scope of Schedule I of Fit and Proper Criteria of the Modaraba Regulations	Within 30 days of the year's end	Submit documents to their CEO and directors, report any changes to their fitness and proprietary status within three and seven business days, and initiate replacement processes if non-compliance occurs.	Registrar

## CHAPTER 2:

### APPROVALS OF THE COMMISSION AND REGISTRAR REQUIRED BY THE MODARABA COMPANIES AND MODARABAS

#### 2.1. Grant of registration of modaraba company by the Registrar

No modaraba company shall operate without registration with the Registrar. A company shall be eligible for registration as a modaraba company if it fulfils the conditions as specified in section 5 of the Modaraba Ordinance.

*[Reference: Section 5 and 6 of the Modaraba Ordinance read with rule 4 of the Modaraba Rules]*

#### 2.2. Authorization to float modaraba by the Registrar

A modaraba company registered under section 4 of the Modaraba Ordinance, shall apply to the Registrar, for permission to float modaraba. A modaraba shall not be floated without prior authorization of the Registrar.

*[Reference: Sections 8 and 11 of the Modaraba Ordinance and rule 4 of the Modaraba Rules]*

#### 2.3. Prohibition of change of sponsors, promoters, substantial shareholders, directors or the chief executive officers in the modaraba companies

No changes in the modaraba company's substantial shareholders, directors, or chief executive officer shall be made without the prior approval of the Registrar.

*[Reference: Sub-clause 1.1 of Chapter 1 of the Consolidated Circular]*

#### 2.4. Blocking and un-blocking of shares of the modaraba company and modaraba certificates

The shares of the modaraba company and modaraba certificates held by the sponsors, promoters, or substantial shareholders shall remain blocked in CDC. The unblocking of such shares shall require prior written approval of the Registrar. No withdrawal or transfer is permitted without the prior written permission of the Registrar.

*[Reference: Sub-clause 1.3 of Chapter 1 of the Consolidated Circular]*

#### 2.5. Approval of acquisition/transfer of management

As per the conditions of the authorization to float a modaraba, any acquisition or transfer of management rights of the modarabas shall require prior approval of the Registrar. Before filing any petition of merger/demerger, a NOC from the Registrar shall also be obtained.

*[Reference: Sections 6 and 11 of the Modaraba Ordinance and conditions of authorization]*

#### 2.6. Approval of appointment and removal of auditors

Every modaraba company shall, state in the prospectus the name and the address of the auditor of the modaraba duly approved by the Registrar, who shall not be the auditor of the modaraba company. The terms of the appointment of auditor of the modaraba, shall be renewed every year with the prior approval of the Registrar. The modaraba company shall seek approval of the Registrar for appointment of auditor of the modaraba every year, from the panel of auditors notified by the Commission.

As defined in Schedule 3 of the Companies Act of 2017, modaraba companies are public interest companies, so the any auditor appointed for a modaraba company must be from the Audit Oversight Board's approved list.

[Reference: Sub-section (1) of section 15 of the Modaraba Ordinance read with sub-rule (1) and (2) of rule 19 of the Modaraba Rules]

## 2.7. Approval of extension in time for holding of annual review meeting

An application for extension in time for holding of annual review meeting shall be made to the Registrar, not less than thirty days before the last date on which the annual review meeting is required to be held. The Registrar, may for any special reason extend the time within which any annual review meeting, shall be held by a period not exceeding thirty days.

[Reference: Regulation 27 of the Companies (General Provisions and Forms) Regulations, 2018 read with Chapter 12 of the Consolidated Circular]

## 2.8. Approval to change accounting year

The modarabas can change the accounting year for statement of financial position of the modarabas with the prior approval of the Registrar.

[Reference: Sub-rule (2) of rule 11 of the Modaraba Rules]

## 2.9. Permission to increase modaraba Fund

The modaraba companies may increase the modaraba fund with the prior approval of the Registrar by altering the prospectus of a modaraba that has been floated and by issuing new modaraba certificates, subject to such conditions as the Registrar may impose.

[Reference: Rule 20A of the Modaraba Rules]

## 2.10. Permission to further issue of modaraba certificates

A modaraba company can increase the modaraba fund of a modaraba by issuing new modaraba certificates. With the Registrar's approval, it can increase its modaraba fund by issuing new modaraba certificates. However, such certificates will be issued to existing certificate holders, subject to the conditions imposed by the Registrar.

[Reference: Rule 20B of the Modaraba Rule]

## 2.11. Permission to form a subsidiary by a Modaraba and making investment in it

A modaraba invests to establish a subsidiary company. Before investing in the formation of a subsidiary company, a modaraba must first obtain approval from the Commission.

[Reference: Clause (xi) of regulation 9 of the Modaraba Regulations]

## 2.12. Permission to provide housing finance by modarabas

Modarabas may issue housing financing facilities to their customers with the Registrar's prior approval, with a maximum per party limit of Rs.50 million.

[Reference: Regulation 11 of the Modaraba Regulations]



### 2.13. Approval to issue Certificates of Musharakah (COM) and Sukuk

A financial services modaraba with an enabling clause for resource mobilization in its prospectus may raise funds by issuing of COM with the Commission's approval. The permission to issue COM by a modaraba shall automatically stand suspended with immediate effect, if the modaraba becomes non-compliant with the conditions as specified in sub-regulation 1 of regulation 19 of the Modaraba Regulation. If the modaraba is able to remove the non-compliance (s) of sub-regulation (1) of regulation 19 of the Modaraba Regulations within six months, the modaraba will resume issuing new COMs only if the Commission grants permission, after filing an application under sub-regulation (2) of regulation 19 of the Modaraba Regulations. The modarabas may raise funds from the general public by issuance of Sukuk, participation term certificates, or any other redeemable capital instruments with the Registrar's prior approval.

*[Reference: Regulations 17 and 19 of the Modaraba Regulations and sub-clause 3.2 of Chapter 3 of the Consolidated Circular]*



### 2.14. Approval for appointment/re-appointment/removal of directors and chief executives and election of directors in the annual or extraordinary general meeting

The modaraba company must apply for approval from the Registrar for individuals wishing to contest the election of directors in the annual or extraordinary general meeting, within 10 days before the date of the meeting in which election of directors is to be held.

The modaraba company must apply for the appointment of a chief executive or director within 90 days of any casual vacancy.

The proposed director or CEO of modaraba company must not take office until their appointment is approved by the Registrar.

*[Reference: Clause (b) & (c) of sub-regulation (1) of regulation 26 of the Modaraba Regulation and clause (2) of the application and scope of Schedule I of Fit and Proper Criteria of the Modaraba Regulations]*



### 2.15. Permission for removal of records

No modaraba shall relocate any of its records or papers relevant to its business from Pakistan to a location outside Pakistan without the prior permission of the Registrar.

*[Reference: Regulation 28 of the Modaraba Regulations]*

## Summary of required approvals by the Modaraba Companies and Modarabas from the Commission and Registrar

Sr. #	Approval Required	Ref. of Law	Description	Approving authority
1.	Registration of modaraba company	Section 5 and 6 of the Modaraba Ordinance read with rule 4 of the Modaraba Rules	Meet the conditions outlined in section 5 of the Modaraba Ordinance to operate.	Registrar
2.	Authorization to float modaraba	Sections 8 and 11 of the Modaraba Ordinance and rule 4 of the Modaraba Rules	Permission to float modaraba, which must be floated with prior authorization from the Registrar.	Registrar
3.	Prohibition of change of sponsors, promoters, substantial shareholders, directors or the chief executive officers in the modaraba companies	Sub-clause 1.1 of Chapter 1 of the Consolidated Circular	Changes to the modaraba company's substantial shareholders, directors, or CEO must be approved by the Registrar.	Registrar
4.	Blocking and un-blocking of shares of the modaraba company and modaraba certificates	Sub-clause 1.3 of Chapter 1 of the Consolidated Circular	Shares of Modaraba Company and certificates of Modarabas held by sponsors, promoters, or substantial shareholders must remain blocked in CDC, requiring prior approval and permission for unblocking and withdrawal.	Registrar
5.	Approval of acquisition/ transfer of management	Sections 6 and 11 of the Modaraba Ordinance and conditions of authorization	Before filing a merger or demerger petition, prior approval is required for any acquisition or transfer of modarabas management rights, as well as obtain a NOC.	Registrar
6.	Approval of appointment and removal of auditors	Sub-section (1) of section 15 of the Modaraba Ordinance read with rule 19 of the Modaraba Rules	Modaraba companies are required to include the auditor's name and address in their prospectus, which must be approved and the appointment is renewed annually.	Registrar
7.	Approval of extension in time for holding of annual review meeting	Regulation 27 of the Companies (General Provisions and Forms) Regulations, 2018 read with Chapter 12 of the Consolidated Circular	The timeline can be extended up to thirty days for an annual review meeting, based on special reasons, at least thirty days before the meeting's last date.	Registrar

Sr. #	Approval Required	Ref. of Law	Description	Approving authority
8.	Approval to change accounting year	Sub-rule (2) of rule 11 of the Modaraba Rules	Accounting year can be altered for financial statement with the prior approval.	Registrar
9.	Permission to increase modaraba Fund	Rule 20A of the Modaraba Rules	Modaraba fund can be increased via altering the prospectus and issuing new certificates with prior approval.	Registrar
10.	Permission to further issue of modaraba certificates	Rule 20B of the Modaraba Rule	Increasing modaraba fund by issuing new certificates, subject to prior approval.	Registrar
11.	Permission to form a subsidiary by a Modaraba and making investment in it	Clause (xi) of regulation 9 of the Modaraba Regulations	Before investing in the formation of a subsidiary company, obtain approval from the Commission.	Commission
12.	Permission to provide housing finance by modarabas	Regulation 11 of the Modaraba Regulations	Housing finance can be provided to customers, with prior approval, with a maximum per party limit of Rs.50 million.	Registrar
13.	Approval to issue Certificates of Musharakah (COM) and Sukuk	Regulations 17 and 19 of the Modaraba Regulations and Chapter 3 of the Consolidated Circular	A financial services modaraba can raise funds through the issuance of COMs with Commission approval.	Commission
14.	Approval for appointment/re-appointment/ removal of directors and chief executives and election of directors in the annual or extraordinary general meeting	Regulation 26 of the Modaraba Regulation and clause (2) of the application and scope of Schedule I of Fit and Proper Criteria of the Modaraba Regulations	Prior permission for directors contesting election and appointment a CEO within 90 days of a casual vacancy.	Registrar
15.	Permission for removal of records	Regulation 28 of the Modaraba Regulations	Modaraba is barred from relocating any business records or papers from Pakistan to an outside location without the prior permission.	Registrar



## CHAPTER 3:

### CRITICAL COMPLIANCE PROVISIONS FOR THE MODARABA COMPANIES AND MODARABAS

#### 3.1. Expenses to be reimbursed to modaraba company's etc.

The modaraba company is entitled to annual reimbursement for reasonable expenses, excluding remuneration for directors, officers, and employees. However, such expenses shall be audited by the auditors of the modaraba company and classified under appropriate headings as used in Profit and Loss Account, and will form part of the financial statements of the modaraba.

*[Reference: Rule 16 of the Modaraba Rules]*

#### 3.2. Conditions applicable to modaraba company-loan/advance/credit from the funds of the modaraba

No modaraba company or any of its directors or officers or their relatives shall obtain loan, advance or credit from the funds of the modaraba or on the security of the assets of the modaraba.

A modaraba shall not provide finance to its modaraba company, major shareholders, chief executives, directors, key executives, firms or companies in which it or any of the chief executive, directors, key executives, or their close relatives, as defined in the Companies Act, 2017 are interested as a partner, director, guarantor or major shareholder. However, the finance extended to employees of a modaraba as a part of employee service policy duly approved by the board of directors shall not fall in this category.

*[Reference: Sub-section (2) of Section 17 of the Modaraba Ordinance and regulation 9(1)(viii) of the Modaraba Regulations]*

#### 3.3. Remuneration of modaraba company

The remuneration of a modaraba company shall not exceed ten per cent of net annual profits computed in the manner to be prescribed.

For the purposes of the calculation of the remuneration payable to the modaraba company the profit shown in the audited profit and loss account of the modaraba shall form the basis.

*[Reference: Section 18 of the Modaraba Ordinance and sub-rule (3) of rule 16 of the Modaraba Rules]*

#### 3.4. Loan or contribution to associated undertakings, etc. prohibited

No loan or contribution shall be made by the modaraba to any of the associated undertakings of the modaraba companies or political parties or other organization of political nature.

*[Reference: Rule 31 of the Modaraba Rules]*

#### 3.5. Holding of annual review meeting

Every modaraba shall hold an annual review meeting of its certificate holders in the town where the registered office of the modaraba is situated, within sixteen months from the date of its incorporation and thereafter once in every calendar year within a period of one hundred and twenty days following the close of its financial year, to review performance of the modaraba.

*[Reference: Regulation 33 of the Modaraba Regulations and sub-clause (vi) of clause 12.1 of Chapter 12 of the Consolidated Circular]*

### 3.6. Authentication of balance sheet

The statement of financial position, statement of profit and loss and other comprehensive income, cash flow statement and statement of changes in equity shall be signed by the chief executive and two directors of the modaraba company.

*[Reference: Rule 12 of the Modaraba Rules]*

### 3.7. Certain mortgages and charges to be void if not registered

Every mortgage or charge created by a modaraba shall be registered with the Registrar; otherwise, it is void. Whenever the modaraba acquires any property which is subject to a charge of any such kind as would, if it had been created by the modaraba after the acquisition of the property, have been required to be registered with the Registrar.

*[Reference: Rules 27 and 28 of the Modaraba Rules]*

### 3.8. Appointment of independent director and female director

It is mandatory for every modaraba company to have at least two or one third members of the board, whichever is higher, as independent directors. An independent director shall be selected from the data bank of the institutions / bodies notified by the Commission in accordance with section 166 of Companies Act, 2017. It is also mandatory that the independent director shall submit his consent to act as director, along with declaration to the company that he qualifies the criteria of independence notified under the Companies Act, 2017 and such declaration shall be submitted to the chairman of the board at its first meeting which is held after election of directors as well as on occurrence of any change affecting his independence. A modaraba company shall ensure compliance of the regulatory requirements while appointing independent directors on its board.

Subject to section 154 of the Companies Act, 2017 it is mandatory that the board of every modaraba company shall have at least one female director when it is constituted / reconstituted.

*[Reference: Regulations 22 and sub-regulation (2) of regulation 26 of the Modaraba Regulations and regulation 6 and 7 of the CCG Regulations]*

### 3.9. Maximum exposure of a modaraba to a person or group

The total outstanding exposure (fund based and non-fund based) by a modaraba to a person shall not at any time exceed 20% of the equity of the modaraba (as disclosed in the latest financial statements). The total outstanding exposure (fund based and non-fund based) by a modaraba to a group shall not exceed 25% of the equity of the modaraba (as disclosed in the latest audited financial statements).

*[Reference: Regulation 3 of the Modaraba Regulations]*

### 3.10. Exposure limits in capital market

A modaraba's aggregate exposure in listed equity securities shall not exceed 25% of its equity. The investment of modaraba fund in listed equity securities of any company shall not exceed 5% of the paid-up capital of the investee company or 10% of its own equity, whichever is less and the shares acquired in excess of 10% limit due to the underwriting commitments, shall be sold off within a period of six months from the date of acquisition of such shares.

*[Reference: Regulation 4 of the Modaraba Regulations]*

### 3.11. Minimum conditions for providing finance

A modaraba shall while providing finance (including renewal and enhancement) to a customer 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 customer or its group obtained from a credit information bureau.

[Reference: Sub-regulation (1) of regulation 5 of the Modaraba Regulations]

### 3.12. Classification and provisioning for non-performing assets

A modaraba 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 Registrar 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.

[Reference: Sub-regulation (4) of regulation 14 of the Modaraba Regulations]

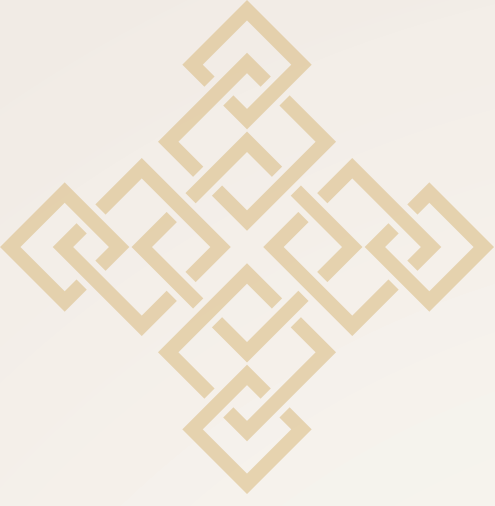
## Summary of the critical compliance provisions for the Modaraba Companies and Modarabas

Sr. #	Compliance provision	Ref. of Law	Description
1.	Expenses to be reimbursed to modaraba company	Rule 16 of the Modaraba Rules	The modaraba company is entitled to annual reimbursement for reasonable expenses which must be audited and classified in the Profit and Loss Account.
2.	Conditions applicable to modaraba company-loan/advance/credit from the funds of the modaraba	Sub-section (2) of Section 17 of the Modaraba Ordinance and regulation 9(1)(viii) of the Modaraba Regulations	A modaraba company cannot obtain loans, advances, or credit from its funds or assets. It cannot finance its company, major shareholders, or related companies. However, approved employee service policy finance is not considered a modaraba company, except for partners, directors, guarantor, or major shareholders.
3.	Remuneration of modaraba company	Section 18 of the Modaraba Ordinance and rule 16 of the Modaraba Rules	A modaraba company's remuneration must not exceed 10% of net annual profits, based on the audited profit and loss account.
4.	Loan or contribution to associated undertakings, etc. prohibited	Rule 31 of the Modaraba Rules	The modaraba is prohibited from making loans or contributions to associated companies, political parties, or other political organizations.
5.	Holding of annual review meeting	Regulation 33 of the Modaraba Regulations and Chapter 12 of the Consolidated Circular	A modaraba must hold an annual review meeting for certificate holders within 16 months of incorporation and every year after the financial year's close to review its performance.
6.	Authentication of balance sheet	Rule 12 of the Modaraba Rules	The modaraba company's chief executive and two directors must sign the statements of financial position, income, cash flow, and equity.

Sr. #	Compliance provision	Ref. of Law	Description
7.	Certain mortgages and charges to be void if not registered	Rules 27 and 28 of the Modaraba Rules	A modaraba must register any mortgage or charge created after acquiring property, as it is void if not registered.
8.	Appointment of independent director and female director	Regulations 22 and regulation 26 of the Modaraba Regulations and regulation 6 and 7 of the CCG Regulations	A modaraba company must have at least two or one-third independent directors on its board, selected from a data bank notified by the Commission under section 166 of the Companies Act, 2017. Additionally, every modaraba company must have at least one female director in its board when constituted or reconstituted.
9.	Maximum exposure of a modaraba to a person or group	Regulation 3 of the Modaraba Regulations	A modaraba's total outstanding exposure to a person and a group must not exceed 20% and 25% of its equity, as per the latest audited financial statements.
10.	Exposure limits in capital market	Regulation 4 of the Modaraba Regulations	A modaraba's equity exposure in listed equity securities should not exceed 25%, and its investment in a company's securities should not exceed 5% of the paid-up capital of the investee company or 10% of its own equity, with excess shares sold within six months.
11.	Minimum conditions for providing finance	Sub-regulation (1) of regulation 5 of the Modaraba Regulations	A modaraba must consider a customer's credit report from a credit information bureau when providing finance exceeding 50,000 rupees after netting off security liquid assets.
12.	Classification and provisioning for non-performing assets	Sub-regulation (4) of regulation 14 of the Modaraba Regulations	A modaraba must maintain accurate classification and provisioning of rescheduled or restructured non-performing facilities in its reports to the Registrar and Credit Information Bureau.

**Disclaimer:** This is not an exhaustive list of critical compliance provisions, and the modaraba companies are advised to refer to the Modaraba Law and add any other relevant and applicable provisions.





SECP

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