

GOVERNMENT OF PAKISTAN
Securities and Exchange Commission of Pakistan

-.-.-

Islamabad, 17th May, 2023

NOTIFICATION

S.R.O. 592(I)/2023.- 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 makes the following amendments in the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the same having been previously published in the official Gazette vide S.R.O. 423 (I)/2023 dated March 31, 2023, namely:-

AMENDMENTS

In the aforesaid Regulations, -

- (1) in the preamble, after the words “housing finance services” the words “discounting services, micro financing” shall be inserted and thereafter, after the expression “NBFCs” occurring at the end, the expressions “and Pension Fund Managers and pension fund scheme business managed by them” shall be added;
- (2) in regulation 2, in sub-regulation (1),-
 - (i) for clause (vi), the following shall be substituted, namely: -

“(vi) “Closed End Fund” means a Closed End Scheme which is a CIS 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;”;
 - (ii) clause (vii) shall be omitted;
 - (iii) after clause (xiaa), the following new clauses shall be added, namely:-

“(xiaaa) “Digital Fund Management NBFC” means services provided by fund management NBFC through digital technology based or internet-based channels, apps or tools, with limited or no human interaction;

(xiaaab) “Digital Lending” means providing finance through digital, technology-based or internet-based channels, apps or tools, with limited or no human interaction for loan application, approval, disbursement and repayment of loan;

(xiaaac) “Digital Trustee” means a trustee that is providing services through digital

technology based or internet-based channels, apps or tools with limited or no human interaction”;

- (iv) clauses (xiii) and (xiv) shall be omitted;
 - (v) clause (xvi) shall be omitted;
 - (vi) clause (xxiii) shall be omitted;
 - (vii) in clause (xxvii), for the expression “means Margin Financing as defined in sub-rule (k) of rule 2 of” the expression “shall have the same meaning as assigned to it under the” shall be substituted;
 - (viii) in clause (xxxiva), for the expression “600,000/-”, the expression “1,200,000/-” shall be substituted; and
 - (ix) in clause (xxxv), for the expression “with ‘perfected lien’” the expressions “directly, or held through another NBFC or a Scheduled Bank on behalf of the NBFC, with ‘perfected lien/charge’” shall be substituted;
- (3) in regulation 3,-
- (i) in clause (v), the word “and” at the end shall be omitted;
 - (ii) in clause (vi), at the end, the word “and” shall be inserted; and
 - (iii) after clause (vi), amended as aforesaid, the following new clause shall be added, namely:-
“(vii) Investment Finance Services restricted to Micro financing.”;
- (4) in regulation 4, after the expression “4.” occurring at the beginning, the expression “**Minimum Equity Requirement.-**” shall be inserted and thereafter, after the word “undertake” the word “any” shall be inserted;
- (5) regulation 8 shall be omitted;
- (6) in regulation 10,-
- (i) for clause (aa) the following shall be substituted, namely: -

“(aa) within thirty days from the date of election of directors in a general meeting, or the office of the chief executive falling vacant, as the case may be, the NBFC shall submit an application complete in all respects, for obtaining approval for appointment or reappointment of chief executive;
 - (ii) after clause (aa), amended as aforesaid, the following new clause shall be added, namely:
-
“(ab) 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 immediately inform the Commission along with reasons for the same;”;

- (iii) in clause (b), the words “or a chief executive” shall be omitted and thereafter, for the words “ten days” the words “ninety days” shall be substituted;
 - (iv) clause (ba) shall be omitted; and
 - (v) in clause (d), after the expression “14 days of the” the words “ issue of the letter” shall be replaced with the words “communication of such deficiencies or short comings” ;
- (7) in regulation 14, in sub regulation (4), under clause (e), the second proviso shall be omitted;
- (8) in regulation 15A, in sub-regulation (3), the provisos shall be omitted;
- (9) in regulation 17,-
- (i) in sub-regulation (4), in clause (c), after the words “scheduled banks” the words “or NBFCs engaged exclusively in the business of issuance of guarantees,” shall be added; and
 - (ii) for sub-regulation (5), the following shall be substituted, namely:-

“(5) This regulation shall not apply to an NBFC not accessing Public Funds in Pakistan provided that such NBFC shall determine its internal prudential limits, restrictions and requirements for exposure as per the credit and risk management policies duly approved by its Board.

Explanation:- Public Funds include public deposits, inter-corporate deposits, certificate of deposits and all funds received whether directly or indirectly from outside sources such as funds raised by issue of shares, debentures, commercial papers, etc. that are listed or publicly traded. Further, indirect receipts of public funds mean funds received not directly but through associates and group entities which have access to public funds;
- (10) in regulation 18A,-
- (i) for the words “The aggregate unsecured Finance shall not exceed equity of the NBFC” the words “In case of deposit taking NBFC, the aggregate unsecured Finance shall not exceed fifty percent of its equity” shall be substituted, and thereafter the first proviso shall be omitted; and
 - (ii) for the 2nd proviso, the following shall be substituted, namely: -

“Provided that this Regulation shall not be applicable in case of Non-Bank Micro Finance Company:

Provided further that all NBFCs shall determine their internal prudential limits,

restrictions and requirements for unsecured exposure as per the credit and risk management policies duly approved by their Board, and shall submit reports to the Commission regarding such policies and unsecured finance provided thereunder, on such format as the Commission may notify through circular.”;

(11) in regulation 19,-

(i) for clause (b), the following shall be substituted, namely: -

“(b) provide Finance against Unlisted Debt Security, excluding those guaranteed by an NBFC engaged exclusively in the business of issuance of guarantees and Unlisted Equity Security;” ; and

(ii) in clause (c), the words “or group companies of that company” shall be omitted;

(12) in regulation 20, the words “provided that such NBFC carries out Consumer Finance business” shall be omitted;

(13) in regulation 21,-

(i) in sub-regulation (2), for clause (b), the following shall be substituted, namely: -

“(b) comply with the requirements of State Bank of Pakistan regarding membership of Private Credit Bureaus under Credit Bureaus Act, 2015 (XI of 2015) within the time period stipulated by SBP and shall ensure regular/continuous reporting to all the credit bureaus operating in Pakistan:

Provided that NBFCs undertaking digital lending shall initiate data sharing with respective Credit Bureaus on real time basis.”;

(ii) for sub-regulation (3), the following shall be substituted, namely:-

“(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; and shall properly record reasons and justifications in the credit approval form for all such exception.”;

(iii) in sub-regulation (5),-

(i) in clause (c), in sub-clause (ii), after the words “public company” at the end, the words “or has paid up capital of less than Rs. 3 million” shall be inserted; and

(ii) in clause (d), in sub-clause (ii), after the words “public company” at the end, the words “or has paid up capital of less than Rs. 3 million” shall be inserted;

(14) in regulation 22, for sub-regulation (1) and (2), the following shall be substituted, namely: -

“(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 considering the risk profile of the borrower(s) in order to adequately secure their interests.

- (2) A deposit taking NBFC shall comply with the following margin requirements, while Non-deposit taking NBFCs shall determine their own margin requirements on facilities provided by them to their borrower taking into account the risk profile of the borrower(s) in order to adequately secure their interests.”;
- (15) regulation 23 shall be omitted;
- (16) for regulation 24, the following shall be substituted, namely: -
- “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 and linkage between borrower’s equity and its total financing from all financial institutions is not lower than such benchmarks as may be set under the credit policy of the NBFC approved by its Board. 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.”;
- (17) in regulation 25, for sub-regulation (1), the following shall be substituted, namely: -
- “(1) A Lending NBFC shall observe the criteria for classification of its assets and provisioning as provided in Schedule X:
- Provided that in case of loans of up to Rs. 100,000 that are not secured by any Tangible Security and having a duration of up to six months, provided by lending NBFCs engaged in Investment Finance Services, the classification criteria specified for Micro Finance portfolio in Schedule X shall apply. Notwithstanding anything contained in this sub-regulation, after adoption and implementation of IFRS 9, the requirements of IFRS 9 shall be applicable.”;
- (18) in regulation 28,-
- (i) in clause (a) before the word “Leasing Company” the words “Investment Finance Company,” shall be inserted and thereafter, after the words “assets in” the word “finance” and the expression “,” shall be inserted;
- (ii) clause (b) shall be omitted;

(iii) after clause (c), the following new clause shall be added, namely: -

“(ca) Notwithstanding anything contained in clauses “a” and “c”, a newly licensed lending NBFC shall ensure compliance with above applicable investment limits within one year from the date of grant of license or within such extended time as may be allowed by Commission at the time of grant of license;”

(iv) after clause (d), the following new clause shall be added, namely: -

“(da) Lending NBFCs shall comply with such requirements as may be specified by the Commission through circular, for all or a specific class of Lending NBFCs, including but not limited to the following, -

(i) Digital Lending;

(ii) Fair treatment of consumers/borrowers including devising appropriate pricing policies and its disclosures;

(iii) adequate and accurate disclosures including but not limited to the offered products, services and applicable terms and conditions, to borrowers, customers and other stakeholders;

(iv) minimum disclosure requirements for digital applications, websites and any other platform used by the NBFCs for the licensed activity;

(v) Information technology, systems and information security measures:

(vi) Personal data privacy and security;

(vii) Usage of cloud storage and cloud operating system; and

(viii) Limitations on collection of data.”;

(19) in regulation 31, after the expression “Rs. 500 million or more,” the expression “as per the latest annual audited financial statements,” shall be inserted;

(20) in regulation 34, for the words “A Non-Bank Micro Finance Company shall comply with the requirements of the Code of Corporate Governance, as specified in Schedule XIIA.” the words “All lending NBFCs including Non-Bank Micro Finance Company shall comply with the requirements of the Code of Corporate Governance, as specified in Schedule XIIA.” shall be substituted;

(21) in regulation 36, for the full stop at the end, a colon shall be substituted and thereafter, the following proviso shall be added, namely: -

“Provided that Digital Fund Management NBFCs shall have certain exemptions and shall comply with additional requirements as may be specified by the Commission through circular, for newly formed Digital Asset Management Services/ Digital Investment Advisors or existing

- fund management NBFC that intends to convert its status to a Digital Fund Management NBFC.”;
- (22) in regulation 37,-
- (i) in sub-regulation (1), the proviso shall be omitted;
 - (ii) in sub-regulation (4),-
 - (i) in clause (a), after the word “hold” the word “any” shall be inserted and thereafter, after the words “employee” the words “, director or otherwise” shall be inserted; and
 - (ii) clause (b) shall be omitted;
 - (iii) sub-regulation (5) shall be omitted;
 - (iv) in sub-regulation (7)-
 - (i) in clause (i), after the words “or” the words “futures exchanges or” shall be inserted;
 - (ii) in clause (j), for the expression “regulation 55” the expression with the words “Schedule XIX” shall be substituted;
 - (ii) after clause (n), the following new clause shall be inserted, namely: -
 - “(o) hold real estate, except for its own use or rental purposes where real estate was obtained as a result of legal settlements or recourse subject to approval by the Commission.”;
- (23) in regulation 38,-
- (i) in sub-regulation (2),-
 - (i) the heading “Other obligations.-” shall be inserted in the beginning; and
 - (ii) after clause (ab), the following new clause shall be inserted, namely:-
 - “(ac) send a time-stamped acknowledgement for all transactions and activities in an investor’s accounts with AMC to each unit or certificate holder on the registered postal address or through any electronic means including registered email and SMS provided by the unit or certificate holder within 48 hours of such transaction and activity. In case of acknowledgement through electronic means including email or SMS, a real-time intimation be sent for each transaction and activity:
- Provided that an Asset Management Company may send electronic transaction/ activity acknowledgement, in lieu of a physical statement, through electronic means including the registered email address of the unit or certificate holder only after obtaining consent in writing from the unit or certificate holder for sending electronic acknowledgement.”;
- (iii) in clause (c),-
 - (A) for the words “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,-” the words “maintain proper accounts and records of the CIS which will enable a complete and accurate view to be formed of its, -” shall be substituted; and thereafter for sub-clause

- (i) the following shall be substituted, namely:-
“(i) the assets and liabilities;”;
- (B) for sub-clause (ii), the following shall be substituted, namely: -
“(ii) all transactions, income and expenditure;” and
- (C) sub-clause (iii) shall be omitted;
- (iv) after clause (c), amended as aforesaid, the following new clause shall be added, namely:
-
“(ca) maintain proper accounts and records to accurately record and demonstrate its business activities, financial affairs, client transactions and compliance with applicable legislation for a period of ten years;”;
- (v) for clause (e), the following shall be substituted, namely: -
“(e) within three months of closing of the accounting period of the CIS 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. 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;”;
- (vi) for clause (m) the following shall be substituted, namely:-
“(m) establish and maintain comprehensive and independent risk management functions, systems and controls to enable it to identify, assess, mitigate, control and monitor risks in best interest of unit holders of the CIS under its management;”
- (vii) for clause (o) the following shall be substituted, namely:-
“(o) formulate a comprehensive 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.”;
- (viii) clause (p) shall be omitted;
- (ix) in clause (q), for the words “contingency plan” the words “comprehensive contingency plan/ policy approved by its Board of Directors” shall be substituted;
- (x) for clause (r) and (s), the following shall be substituted, namely:-
“(r) maintain a website containing minimum information as provided in Schedule-XVIII;
- (s) send an investment account statement to each unit or certificate holder on the registered postal address or through any electronic means including registered email provided by the unit or certificate holder on semi-annual basis within fifteen (15) days of close of such semi-annual period:

Provided that an Asset Management Company may send electronic account statement, in lieu of a physical statement, through any electronic means including registered email to the unit or certificate holder, only after obtaining consent in writing through physical or electronic means from the unit or certificate holder for sending electronic account statement:

Provided further that an Asset Management Company shall be required to send a semi-annual account statement to every unit or certificate holder, even if the respective unit/certificate holder has chosen the hold mail option:

Provided also that an Asset Management Company shall provide the account statement to the investors within seven working days from the receipt of such request;”;

(xi) after clause (s), substituted as aforesaid, the following new clause shall be inserted, namely: -

“(t) within seven working days upon receipt of written request from the ~~customer~~ unitholder/certificate holder, and completion of all necessary formalities, shall close his account. After account closure, the ~~customer~~ unitholder/certificate holder shall be immediately informed of account closure in writing or through email, whichever is applicable:

Provided that after account closure, details of such unitholder/certificate holder shall be removed from the Unit Holder Register.”;

(24) for regulation 38A the following shall be substituted, namely: -

“38A. Responsibilities towards Corporate Governance and Proxy Voting.- An Asset Management Company shall formulate a Corporate Governance and Proxy Voting policy approved by its Board of Directors which covers the minimum aspects and areas as provided under Schedule XXI.”;

(25) in regulation 38B,-

(i) existing regulation shall be renumbered as sub-regulation (1);

(ii) for the sub-regulation (1) renumber as aforesaid, the following shall be substituted, namely:-

“(1) An Asset Management Company shall put in place, appropriate policies and procedures, approved by its board of directors, which govern trading or investment in securities, investment through investment advisory portfolios under management of the AMC by:

(i) AMC employees, their spouse and dependent children,

(ii) directors and their spouse(s) and dependent children if such directors are privy to investment committee consultations or decision, and such policies and procedures shall, at the minimum, cover requirements/principles as specified in Schedule

XXIII and the AMC may take enforcement action in accordance with the relevant policy duly approved by its board.”; and

(iii) after sub-regulation (1), substituted as aforesaid, the following new sub-regulation shall be inserted, namely: -

“(2) To the extent that a violation pertaining to trading restriction as required under sub-regulation (1) occurs, all such cases and enforcement actions taken, by the AMC shall be reported to the Commission within 30 days of AMC becoming aware of such violation and to the Board of Directors of AMC in forthcoming board meeting.”;

(26) for the heading “**Collective Investment Schemes Open End Scheme and Closed End Schemes**” the heading “**Trustee of Collective Investment Schemes**” shall be substituted;

(27) in regulation 39, for the expression “Trust Act 1882(II of 1882)” the expression “federal or provincial Trust Act” shall be substituted;

(28) in regulation 40, after clause (f), the following explanation shall be added, namely: -

“Explanation:- for the purposes of these regulations a trustee may include a “Digital Trustee”.”;

(29) in regulation 41, in clause (h), for the semi colon a colon shall be substituted and thereafter the following proviso shall be inserted, namely:-

“Provided that the trustee's report in the annual accounts shall include the trustee's opinion regarding the calculation of the management fee, CIS Monthly Fee Payable to the Commission and other expenses in accordance with the applicable regulatory framework.”

(30) in regulation 40B.-

(i) in sub-regulation (1),-

(i) clause (c) shall be omitted;

(ii) for clause (d) the following shall be substituted, namely: -

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

(iii) clause (e) shall be omitted; and

(ii) sub-regulation (3) shall be omitted;

(31) in regulation 40C,-

(i) in sub-regulation (2), for the expression “Form IV” the expression “Form III” shall be substituted;

(ii) sub-regulation (3) shall be omitted;

(32) in regulation 41, in clause (s), for the full stop at the end a colon shall be substituted and thereafter, the following new clauses shall be inserted, namely:-

“(t) ensure that its Board of Directors approve and oversee all key policies including those relating to risk management, internal controls, internal audits and compliance and conflict of

interest;

(u) ensure that its external auditor is from category A of the panel of auditors circulated and maintained by the Commission;

(v) ensure confidentiality of client's information and 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 clients;

(w) where the trustee company is engaged in carrying out any activity beside that of acting as trustee, it shall ensure that the activities relating to the trustee business are separate and segregated from all other activities; and

(x) ensure compliance with information protection, cybersecurity related provisions as may be specified by the Commission.”

(33) in regulation 44,-

(i) in the heading, for the words “**Open End Scheme or Closed End Scheme**” the words “**CIS**” shall be substituted;

(ii) sub-regulation (2) shall be omitted;

(iii) in sub-regulation (3), after the expression “Commission.” the words “Provided that the Commission may specify a standard format of Trust Deed.” shall be inserted;

(iv) for sub-regulation (4), the following shall be substituted, namely:-

“(4) After the principle approval of the Commission, if required, the Asset Management Company shall execute and submit the Trust Deed for registration in accordance with the provisions of respective federal or provincial Trust Act and thereafter an application for registration of a CIS containing the information as set out in Schedule VI shall be submitted to the Commission along with evidence of fee as specified by the Commission in Schedule II in the designated bank branch in favor of the Commission.”; and

(v) in sub-regulation (7), after the words “back end load” the words “or any other material change affecting existing unitholders,” shall be inserted;

(vi) in sub-regulation (8), for the full stop at the end, a colon shall be substituted and thereafter following proviso shall be inserted:-

“Provided that an Asset Management Company may provide plans under a Collective Investment Scheme (CIS) on such terms and conditions as specified through a circular.”;

(34) in regulation 45, in sub-regulation (1), after clause (c), the following new clause shall be inserted, namely:-

“(d) the Asset Management Company does not wish to maintain management rights of a CIS, subject to issuance of three (3) months' notice to unit holders about such intention, with prior approval of the trustee and the Commission.”;

- (35) in regulation 45A, in sub-regulation (2), for the full stop a colon shall be substituted and thereafter the following new proviso shall be added, namely:-
“Provided that the trustee shall also send such notice at the registered postal address and/ or email such notice at the registered email ID of all unit holders including the Non-Resident investors.”;
- (36) regulations 46, 47, 48, 49, 50, 51, 52, and 53 along with chapter headings shall be omitted;
- (37) before regulation 54, the heading “Collective Investment Schemes” shall be omitted;
- (38) in regulation 54,-
- (i) sub-regulation (2) shall be omitted;
 - (ii) for sub-regulation (3a) the following shall be substituted, namely:-
“(3a) The minimum net assets of an Open End Scheme shall be one hundred million rupees at all times during the life of the scheme.”;
- (39) in regulation 55,-
- (i) before regulation 55, the heading “Investment Policy of Collective Investment Schemes” shall be inserted;
 - (ii) for sub-regulation (1) the following shall be substituted, namely:-
“(1) An Asset Management Company shall clearly state the objectives and the investment policy of a CIS.”;
 - (iii) in sub-regulation (2), for the words “Collective Investment Schemes” the expression “CIS” shall be substituted;
 - (iv) for sub-regulation (3), the following shall be substituted, namely:-
“(3) A CIS shall comply with the investment policy as provided in Schedule-XIX.”
 - (v) Sub-regulations (4) to (16) shall be omitted;
- (40) Before regulation 56, the heading “**Pricing, Subscriptions and Redemptions**” shall be added;
- (41) in regulation 57,-
- (i) for sub-regulation (4), the following shall be substituted, namely:-
“(4) The maximum interval between the receipt of a properly documented request complete in all respects, for redemption of units and the issue of payment instrument for the redemption money to the holder shall not exceed six working days or such other period as specified by the Commission for any specific category of fund, unless redemption has been suspended.”;
 - (ii) in sub-regulation (9), after the word “published” occurring at the end, the words “and also emailed at the registered email ID of all unit holders” shall be inserted;
 - (iii) in sub-regulation (16), after the word “Pakistan” occurring at the end, the words “and also emailed at the registered email ID of all unit holders” shall be inserted;

(42) in regulation 58,-

(i) in sub-regulation (1),-

(i) for the words “(1) Subject to Regulation 58(2), an Asset Management Company on behalf of a Collective Investment Scheme managed by it shall not” the words “An Asset Management Company on behalf of a CIS managed by it shall not” shall be substituted;

(ii) clauses (a) to (e) and (h) and (i) shall be omitted;

(iii) for clause (j) the following shall be substituted, namely:-

“(j) finance, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person:

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

Explanation II:- For the purpose of sub-clause the expression “spread transactions” mean such transactions where shares/contracts of one company are purchased on one settlement date and simultaneously sold on another settlement date and/or on same settlement dates across markets, that will be considered as one transaction and includes; ready buy and future sale and its unwinding or future buy and future sale and its unwinding.”;

(iv) clauses (k) and (l) shall be omitted;

(v) in clause (n) for the words “shares” the words “units” shall be substituted;

(vi) clause (p) shall be omitted;

(ii) sub-regulation (2) shall be omitted;

(43) in regulation 60,-

(i) for sub-regulation (3), the following shall be substituted, namely:-

“(3) Notwithstanding the generality of Regulations 60(1) and (2), the fees and charges as provided under Schedule-XX may be payable from the CIS, however, an AMC may charge any of such fees and charges to the management company.”;

(ii) for sub-regulation (6), the following shall be substituted, namely:-

“(6) An AMC shall ensure adequate disclosure of the following expenses and sales load to investor before soliciting investment and prominently disclose on a daily basis, the following

information regarding all CIS on its website and on the website of Mutual Funds Association of Pakistan (MUFAP),-

- (i) Total Expense Ratio;
- (ii) Management Fee as percentage of net assets;
- (iii) Selling and Marketing expenses as percentage of net assets;
- (iv) Front-end, back-end and contingent load as a percentage of net assets; and
- (v) Trustee Fee as percentage of net assets.”;

(iii) sub-regulation (7) shall be omitted;

(44) after regulation 60 amended as aforesaid, the following new regulation shall be inserted, namely:-

“60A. Alignment of interest.- In order to align the interest of the Key Employees of the AMCs with the unitholders of the CIS an AMC shall allocate such part of compensation of the Chief Executive Officer, Chief Investment Officer and Head of Investment Committee of the AMCs in units of CIS(s) being managed by the AMC as specified in Schedule XXII.”;

(45) for regulation 61, the following shall be substituted, namely:-

“61. Remuneration payable to Asset Management Company.- An Asset Management Company shall be entitled to an accrued remuneration that has been verified by the trustee and is paid in arrears on monthly basis:

Provided that Asset Management Company may charge variable fee or fixed fee or the combination of both which shall not exceed the limit disclosed in the Offering Document. AMC shall disclose actual rate of management fee charged as percentage of net asset of CIS in the monthly fund manager report.”;

(46) for regulation 62, the following shall be substituted, namely:-

“62. Fee Payable to the Commission.- (1) An Asset Management Company managing a Collective Investment Scheme, within fifteen days of the close of every calendar month of the Collective Investment Scheme, shall pay the Commission non-refundable fee which is such percentage of average net assets of the Collective Investment Scheme as provided in Schedule II along with trustee certificate for the accuracy:

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

Explanation. - For the purposes of Regulation 62(1) “average net assets” means the average of net assets calculated on daily basis during the month. Provided further that an Asset Management Company managing a Collective Investment Scheme, within three months of

close of accounting year/financial year 2022-2023 of the Collective Investment Scheme, shall pay the Commission, non-refundable annual fee which is 0.02% of average annual net assets of the Collective Investment Scheme.

Explanation. - For the purposes of above proviso, the “average annual net assets” means the average of net assets calculated on daily, weekly or monthly basis during the year.

(2) An Investment Advisor managing discretionary portfolio shall pay the Commission non-refundable fee, which is such percentage of discretionary and non-discretionary portfolio under management as provided in Schedule II within fifteen days of the close of each quarter of its accounting year.”;

(47) in regulation 63, after sub-regulation (2) the following new sub-regulation shall be inserted, namely: -

“(3) An AMC shall ensure that dividend is paid to the unit holder within 10 working days from the date of announcement of dividend.”;

(48) regulation 65 shall be omitted;

(49) in regulation 66A,-

(i) in clause (a) for the words “Collective Investment Scheme” the words “CIS” shall be substituted;

(ii) in the proviso for the full stop at the end, a colon shall be substituted and thereafter the following new proviso shall be inserted, namely:-

“Provided further that a Scheduled Bank, Microfinance Bank, Development Financial Institution and Electronic Money Institution licensed by the State Bank of Pakistan, and a non-banking microfinance company licensed by the Commission, shall be eligible to undertake activities only to the extent of distributor of CIS/ VPF units of AMCs/Pension Fund Managers (PFMs) without obtaining requisite license and subject to compliance with the Securities and Futures Advisors (Licensing and Operations) Regulations, 2017.”;

(iii) in clause (g), the words “measured and” shall be omitted;

(50) in regulation 66B,-

(i) before regulation 66B, the heading “**Investment Advisory Services**” shall be inserted’;

(ii) in sub-regulation (2), after clause (f) the following new clauses shall be added, namely:-

“(g) send a portfolio account statement to discretionary clients on the registered postal address or through any electronic means including registered email address provided by the

client at least on semi-annual basis, with complete disclosure of portfolio allocation, gross return on portfolio, expenses including advisory fee, performance fee etc., net return of the portfolio, value of investments at statement date and performance since inception.

(h) comply with such other requirement as may be specified by the Commission from time to time.”;

(iii) after sub-regulation (2), amended as aforesaid, the following new sub-regulation shall be inserted, namely:-

“(3) An Investment Advisor managing listed and traded Collective Investment Schemes shall comply with relevant regulatory framework as may be specified by the Commission.”;

(51) in regulation 67, in sub-regulation (1),-

(i) for the words “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” the words “An Investment Advisor shall inform the Commission before commencement of business of investment advisory services and in provision of such services it shall” shall be substituted;

(ii) for clause (a), the following shall be substituted, namely:-

“(a) Obtain an undertaking from the Client that he 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;”;

(iii) for clause (b), the following shall be substituted, namely:-

“(b) exercise due diligence, care and prudence to achieve the investment objective of clients;”;

(iv) in clause (c), for sub-clause (i) the following shall be substituted, namely:-

“(i) Portfolio of clients are managed separately;” and

(v) for clause (g), the following shall be substituted, namely:-

“(g) comply with any circulars or directions issued by the Commission.”;

(vi) after clause (g), substituted as aforesaid, the following new clause shall be inserted, namely:-

“(h) The custodian shall be independent of the Investment Advisor or the Asset Management Company in such a manner that there shall be no cross-shareholding nor common directorship:

Provided that a director or employee of the custodian shall not be involved in the affairs of Asset Management Company or the Investment Advisor.”;

(52) in regulation 67AA, for the full stop at the end, a colon shall be substituted, and thereafter the following proviso shall be inserted, namely:-

“Provided that Digital Fund Management NBFCs/ Pension Fund Managers shall comply with

such requirements as may be specified by the Commission through circular, for Digital Pension Fund Scheme Business.”;

(53) in regulation 67D.-

(i) for clause (i), the following shall be substituted, namely:-

A trustee shall meet the obligations, as applicable, laid down in regulation 41 whereby any reference to “Asset Management Company” shall be construed as “Pension Fund Manager”, “Open End Scheme” as “Pension Fund” and “unit holder” as “participant”. In addition, a trustee shall be liable for the act and omission of the lender and its agent in relation to assets forming part of the property of the pension fund and, where borrowing is undertaken for the account of the pension fund, such assets may be registered in the lender's name or in that of a nominee appointed by the lender.”;

(ii) clauses (ii) to (x) shall be omitted;

(54) for regulation 67J, for sub-regulation (5) the following shall be substituted, namely: -

“(5) Any approval granted by the Commission under Regulation 67J,–

(i) 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; and

(ii) shall be valid for a period of hundred and twenty days from the date of approval provided that there is no change in the approved documents or the approval has not been extended.”;

(55) Form I and II shall be omitted;

(56) For Form III, the following shall be substituted, namely:-

“FORM III

[see Regulation 40A/40B (2)/40C(2)]

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/**renewal** to act as Trustee of an Open-End or Closed-End Schemes submitted by (Name of Trustee) under sub-regulation (1) of Regulation **40A/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 40B/**40C** hereby grants/**renews** 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/**renewal**) and shall be renewable every three years as specified in the Regulations.

Approving Authority”;

- (57) Form IV shall be omitted;
- (58) For Schedule I, the following shall be substituted, namely:-

“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 Rs. 40 million for Digital Lending

Non-Bank Microfinance Company for Investment Finance Services License *	Rs. 50 million <u>Rs. 20 million for Digital Lending</u>
Non-deposit taking NBFCs for Leasing or Discounting or Housing Finance Services license	Rs. 50 million for each form of business Rs. 20 million for Digital Lending
Asset Management Services	Rs.200 million <u>Rs. 50 million for Digital Asset Management Services</u>
Investment Advisory Services	Rs. 30 million <u>Rs. 10 million for Digital Asset Management Services</u>

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.”;

(59) in schedule II, for table C, the following shall be substituted, namely: -

“ C. Other Fees:

Sr. No.	Head of Fee	Amount	
1.	Annual Monitoring Fee to be paid by Deposit taking NBFCs	Rs. 250,000/-	
2.	*Monthly Fee for Collective Investment Schemes with effect from July 01, 2023	Type of Collective Investment Scheme	Rate of Fee (% of Average Net Assets)
		Equity, Index, Asset Allocation, Exchange Traded Funds	0.095%
		Balanced	0.085%
		Income, Money Market, Capital Protected, Commodity Scheme, Fixed Rate/Return Scheme	0.075%
3.	Quarterly Fee on discretionary portfolio managed by Investment Advisor with effect from July 01, 2023	0.025% of the average net assets of discretionary and non-discretionary portfolio under management calculated on daily basis by an Investment Advisor	
4.	Fee for authorization of Pension Fund	Rs. 100,000/-	

* The trustee of the Collective Investment Scheme (CIS) shall verify and validate the fee that is required to be paid to the Commission on a monthly basis. In the event of any discrepancy,

the trustee shall promptly notify the Commission.
(60) Schedule V shall be substituted, namely;-

**“Schedule V
See Regulation 38
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:-

- (a) total value of investments;
- (b) bank balances;
- (c) preliminary and floatation costs;
- (d) dividends and other receivable;
- (e) bank loan and overdrafts or other forms of borrowings;
- (f) payable to Asset Management Company;
- (g) dividend payable;
- (h) total value of all assets;
- (i) total value of all liabilities;
- (j) net asset value per unit or certificate;
- (k) number of units issued or certificates issued; and
- (l) contingences and commitments.

3. Income Statement.

- (a) Total investment income net of withholding tax, broken down by category.
- (b) Total other income, broken down by category.
- (c) An itemized list of various costs which have been debited to the Collective Investment Scheme, including,-
 - i. fees paid to the Asset Management Company;
 - ii. remuneration of the custodian;
 - iii. remuneration of trustee;
 - iv. amortization of formation costs;
 - v. safe custody and bank charges, auditor's remuneration;

- vi. borrowing expenses, legal and other professional fees; and
- vii. any other expense borne by the Collective Investment Scheme.

(d) Taxes.

(e) Net income.

(f) Allocation of Net income for the year:

- i. Income already paid on units redeemed; and
- ii. Accounting income available for distribution:
 - Relating to Capital Gains; and
 - Excluding Capital Gains.

4. Statement of movements in Unit holders' fund.

(a) Net asset value per unit as at the beginning of the period.

(b) Net asset value per unit as at the end of the period.

(c) Number of units issued and the amount received upon such issue, (i.e. capital value and element of income on issue of units).

(d) Number of units redeemed and the amount paid on redemption (i.e. capital value of units redeemed and amount paid out for element of income);

(e) Any item resulting in an increase or decrease in net asset value of the unit including, -

- i. exchange gain or loss; and
- ii. Accounting income for the period less distribution.

(f) Any refund on units as element of income.

(g) Distribution for the period including:

- i. Amount brought forward at the beginning of the period bifurcated into realized and unrealized gains.
- ii. Accounting income available for distribution for the period bifurcated between:
 - Relating to Capital Gains; and
 - Excluding Capital Gains.
- iii. Interim dividend, date of distribution, and dividend per unit for units entitled to full period dividend.
- iv. Final dividend, date of distribution, and dividend per unit for units entitled to full year/ period dividend.
- v. Undistributed income carried forward bifurcated into realized and unrealized gains.; and
- vi. Amounts transferred to and from reserves.

5. Notes to the accounts.

The following matters shall be set out in the notes to the accounts.

- (a) 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.
- (b) 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 policies and hedging activities entity shall describe its financial risk management objectives and policies, 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:-

- (a) 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;
- (b) 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
- (c) the total number and value of units held by the Asset Management Company and its related parties.

(C) Borrowings:

- (a) State whether the borrowings are secured or unsecured and the duration of the borrowings.
- (b) Disclosure shall be made of all contingent liabilities showing separately with specifying details.
- (c) If the free negotiability of any asset is restricted by statutory or contractual requirements, this must be stated.

(D) Unit holding or certificate holding pattern of Collective Investment Scheme

Category	No of Investor	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

- (a) Basis on which management fee has been paid to the Asset Management Company and the computation thereof; and
- (b) 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 of Asset Management Company.

(J) Latest Rating of the Collective Investment Scheme and Asset Management Company.

6. Contents of the auditors' report.

The report of the auditor shall state,-

- (a) Whether in the auditor's opinion the financial statement prepared for that period have been properly prepared in accordance with the relevant provisions of the Regulations;
- (b) The auditor has conducted audit of the collective investment scheme in accordance with the international standards on auditing as applicable in Pakistan.
- (c) 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
- (d) 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.

7. Fund Manager Report

- (a) Description of the Collective Investment Scheme category and type.
- (b) Statement of Collective Investment Scheme's investment objective(s).
- (c) Explanation as to whether the Collective Investment Scheme has achieved its stated objective(s).
- (d) Statement of benchmark(s) relevant to the Collective Investment Scheme.

- (e) Comparison of the Collective Investment Scheme's performance during the period compared with the said benchmarks.
- (f) Description of the strategies and policies employed during the period under review in relation to the Collective Investment Scheme's performance.
- (g) 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).
- (h) Analysis of the Collective Investment Scheme's performance.
- (i) 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 Scheme).
- (j) Disclosure of the markets that the Collective Investment Scheme has invested in, including:-
 - i. review of the market(s) invested in during the period; and
 - ii. statement of the returns on the investments by market(s) and by instruments.
- (k) Disclosure on distribution (if any), comprising:-
 - i. particulars of income distribution or other forms of distribution made and proposed during the period; and
 - ii. statement on effects on the NAV before and after distribution is made.
- (l) 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.
- (m) Breakdown of unit holdings by size.
- (n) Disclosure on unit split (if any), comprising:-
 - i. details of unit split exercise carried out during the period; and
 - ii. statement on effects on the NAV per unit before and after the unit split exercise.
- (o) Disclosure of circumstances that materially affect any interests of the unit holders.
- (p) 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:-
 - i. identification of the goods and services received; and
 - ii. 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.

8. Trustee Report

- (a) Statement of opinion whether the Asset Management Company has managed the Collective Investment Scheme in accordance with the following:-
 - i. Investment limitations imposed on the Asset Management Company and the trustee under the trust deed and other applicable laws;
 - ii. valuation or pricing is carried out in accordance with the deed and any regulatory requirement; and
 - iii. creation and cancellation of units are carried out in accordance with the deed
 - iv. and any regulatory requirement.
- (b) 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
- (c) Disclosure of the steps taken to address the shortcoming(s) or to prevent the recurrence of the shortcoming(s).

9. Investment portfolio.

- (a) number or quantity of each holding together with the description and market value;
- (b) the total investment stated at cost;
- (c) the value of each holding as a percentage of the total investments;
- (d) statement of movements in portfolio holdings since the end of the preceding accounting period; and
- (e) the carrying amount of investments (where applicable) categorized as follows:-
 - i. fixed income and other debt securities;
 - ii. quoted and unquoted equity securities;
 - iii. derivatives (e.g. futures, options);
 - iv. other Collective Investment Schemes;
 - v. foreign investments with details of type of instruments
 - vi. any other investments; and
 - vii. significant items included in other assets.
- (f) in case of Government Securities i.e. PIB, GoP Ijara Sukuks, TBills or any other securities, the detail shall include the date of issue and tenure.

10. Performance Table.

A comparative table covering the last three financial years depicting the following:-

- (a) total net asset value;
- (b) net asset value per unit 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:-

- i. Distribution per unit (gross and net) for interim and final distribution, shown separately; and
- ii. 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.

(61) In schedule IX,-

(i) for the definition of “Key Executive”, the following shall be substituted, namely:-

“Form of Business”, for the purpose of this Schedule, shall include form of business as mentioned in Regulation 3 and Pension Fund Scheme Business,

“Key Executive” means key executives of an entity licensed to undertake any form of business and includes, inter alia, the persons discharging the following functional responsibilities,”;

(ii) in the “APPLICATION AND SCOPE” section,-

(i). for sub-paragraph (1), the following shall be substituted namely:-

“The Fit and Proper Criteria in relation to a form of business is applicable to the following persons:

- i. promoters and major shareholders;
- ii. Director;
- iii. Chief Executive; and
- iv. Key Executives.

(ii). for sub-paragraphs (2), (3) and (4), the following shall be substituted, namely:-

“(2) A proposed director or chief executive 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 along with the requisite information required under Annexure “A” and an Affidavit as specified in Annexure “B”.

(4) The appointment of Key Executives does not require the approval of the Commission; however, the person subject to Fit and Proper Criteria shall ensure at the time of appointing a Key Executive that such person qualifies the Fit and Proper Criteria.”;

(ii) for sub-paragraph (5)(d), the following shall be substituted, namely:-

“(d) Conflict of interest of such person with the business.”; and for the proviso the following shall be substituted, namely:-

“Provided that 5(c) and (d) may not be considered while assessing the fitness & propriety of promoters and major shareholder.

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 integrity & track record of the sponsor and ultimate beneficial owners of such corporate body shall be duly considered.

Explanation: For the purpose of this clause, the term “ultimate beneficial owner” shall have the similar meaning as defined under 123A of the Companies Act, 2017.”;

(iii) for sub-paragraph (6), the following shall be substituted, namely:-

“(6) The Fit and Proper Criteria is perpetual in nature and the person subject to Fit and Proper Criteria shall ensure compliance with the provisions of Fit and Proper Criteria.”;

(iv) for sub-paragraph (8), the following shall be substituted, namely:-

“(8) All persons subject to Fit and Proper Criteria shall report any change with reference to their fitness and propriety to the Company Secretary within three business days of such change taking effect and the Company Secretary subject to Fit and Proper Criteria shall within a period of seven business days from the date of receipt, report the same to the Commission.”;

(v) for sub-paragraph (9), the following shall be substituted, namely:-

“(9) The companies engaged in respective form of business 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, results in non-compliance with the Fit and Proper Criteria, the Board of companies engaged in respective form of business shall immediately stop the person from performing his assigned functions, shall inform the Commission and initiate the process for replacement of the individual with a fit and proper

individual.”;

(iii) in the section “ASSESSMENT OF FITNESS AND PROPRIETY”,-

(i) in paragraph (a) “**Integrity and Track Record**”,-

(I) for sub-paragraphs (ii) and (iii) the following shall be substituted, namely:-

“(ii) has been convicted of mismanagement of investments, financial or business misconduct, fraud etc.

(iii) has been convicted, after conducting an inquiry, by the Commission or any other regulatory or professional body or government agency;”;

(II) In sub-paragraph (vi) the proviso shall be omitted;

(III) for sub-paragraph (vii) the following shall be substituted, namely:-

“(vii) in case of promoters or major shareholder, does not have the requisite disclosed and verifiable financial resources.”;

(IV) after sub-paragraph (vii), the following new sub-paragraph shall be inserted, namely:-

“(viii)has been convicted in criminal breach of trust, fraud, offences of terrorism financing or money laundering including predicate offences as provided in the Anti-Money Laundering (AML) Act, 2010, laws made thereunder, or any other AML/ CFT (Countering Financing of Terrorism) requirements notified by the Commission, and is a proscribed persons, either convicted or not, “as mentioned in the notifications issued by the Ministry of Foreign Affairs on United Nations Security Councils Resolutions or intimation from National Counter Terrorism Authority/ Law Enforcement Agencies/ Home Departments of Provinces/ Ministry of Interior”;

(ii) in paragraph (c) “**Competence and Capability**”, for sub-paragraph (ii), the following shall be substituted, namely: -

“(ii) the directors shall have experience and knowledge in any related profession such as banking, accounting, law, internal audit or information technology etc.”;

(iii) in paragraph (d) “**Conflict of interest**”,-

(I) for the words “The directors or chief executive of NBFC and Investment Company shall not:” the words “The directors or chief executive shall not:” shall be substituted;

(II) for sub-paragraph (i), the following shall be substituted, namely: -

“(i) be a director in any entity licensed to undertake any other similar

form of business engaged in a similar activity in Pakistan.”;

(III) in sub-paragraph (iii) for the proviso the following shall be substituted, namely:-

“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 person subject to Fit and Proper Criteria 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 person subject to Fit and Proper Criteria; and

(b) in any other financial institution.”;

(iv) in Annexure A,-

I. clause (a) shall be substituted, namely:-

“(a) Information to be provided by promoters, major shareholders (other than a body corporate), proposed directors and proposed chief executive

1.	Personal and Professional Details:
a.	Name: (former name if any):
b.	C.N.I.C # / Passport # (In case of foreign nationals) –(attach copy)
c.	Contact details:
	i) Address:
	ii) Mobile:
	iii) E-mail:
d.	Present occupation:
e.	Details of Academic and Professional Qualifications: Board of Directors of NBFC engaged in respective form of business shall ensure verification of credentials and degrees of the Chief Executive
f.	Trainings
g.	Experience and Other Directorships: Position and other Directorships held during the last ten years (along with name and address of company/institution/body where appointment/directorship held, nature of the company/institution/body and dates of appointment/directorship.
2.	Status of directorship Shareholder <input type="checkbox"/> Nominee <input type="checkbox"/> Name of the shareholders/ Group of shareholders he is representing Nature of directorship Executive <input type="checkbox"/> Non-executive <input type="checkbox"/> Independent <input type="checkbox"/> Non-independent <input type="checkbox"/>

3.	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.)
4.	Names of persons on the board of the NBFC subject to Fit and Proper criteria who are related to the applicant.

Signature

*use additional sheets if required

II. clause (b) shall be substituted, namely:-

“Information to be provided by a body corporate as promoters and major shareholders:

1. Financial statements for the last three years;
2. Physical Address of business places;
3. Shareholding details including details of ultimate beneficial owners:
Explanation. – For the purpose of this clause, the term “ultimate beneficial owner” shall have the similar meaning as defined under 123A (Explanation) of the Companies Act, 2017.
4. Any substantial adverse verdicts against the Company from any Court of Law during the last ten years
5. Details of associated companies and subsidiaries;
6. Details of any inquiry, investigation conducted by any other regulatory or professional body or government agency during the last five years; and
7. Any other information as may be required by the Commission.

(v) Annexure B shall be substituted, namely:-

“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 and Notified Entities Regulations, 2008;

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;
6. That I have not availed any write off from any financial institution during the last five years;
7. That I have not defaulted against any Finance obtained from any financial institution during the last five years;
8. That I have not been placed on Exit Control List (ECL) during the last five years;
9. That I have not been convicted from any Court of Law or any plea bargain with National Accountability Bureau (NAB) during the last ten years;
10. I hereby confirm that the companies, firms, sole proprietorship etc. where I am a chief executive, director (other than nominee director), major shareholder, owner or partner etc. has no overdue loan payment and instalment outstanding towards banks or other financial institutions;
11. I have not been associated with any illegal banking business, deposit taking or financial dealings;
12. Neither I nor companies in which I am a director or major shareholder has defaulted in paying taxes as on the date of application;
13. I have not been a sponsor, director or chief executive of a defaulting cooperative finance society or finance company;
14. I have never been convicted of fraud or breach of trust or of an offence involving moral turpitude or removed from service for misconduct;
15. I have neither been adjudged an insolvent nor has defaulted in making payments, to my creditors;
16. My net-worth is not less than twice the amount to be subscribed by me personally (not applicable to a nominee director);
17. I do solemnly declare that no investigations have been initiated against me by any Law Enforcement Agencies.

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)

(vi) Annexure C shall be omitted;

(vii) For schedule X the following shall be substituted, namely:-

“(a) For Housing Finance and Financing to Small Enterprises

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 in case of small enterprise finance and two years in case of Housing Finance or more from the due date.	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

Classification	Determinant	Treatment of income	Provisions to be made
	(b) Where financial instruments discounted are not paid or adjusted within 180 days of the due date.	As above.	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 by 60 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,	Unrealized mark-up, interest or profit to be put in	Provision of 100% of the difference resulting from the outstanding balance of principal

Classification	Determinant	Treatment of income	Provisions to be made
	interest, profit or principal is overdue by 180 days or more from the due date.	Suspense Account and not to be credited to Income Account except when realized in cash.	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.

(c). For all Financing Facilities Other than Micro Finance, Housing Finance and Financing to “small enterprises”

Classification	Determinant	Treatment of income	Provisions to be made
(1)	(2)	(3)	(4)
Substandard	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 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 180 days 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 year or more from the due	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

Classification	Determinant	Treatment of income	Provisions to be made
	date. (b) Where financial instruments discounted are not paid or adjusted within 180 days of the due date.	As above.	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: Moreover, in case the exposure is covered against guarantee issued by an NBFC engaged exclusively in the business of issuance of guarantees and the NBFC continues to make regular payments as per agreed repayment schedule on behalf of the borrower post guarantee call, no classification or provisioning shall be required.

(viii) For schedule XI the following shall be substituted, namely:-

**“[SCHEDULE – XI
[see Regulation 25]**

Uniform criteria for determining the value of assets held as collateral

- (a) Only Liquid Assets, leased assets, pledged stocks, plant & machinery with exclusive/first pari passu charge 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, plant & machinery with exclusive/first pari passu charge 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, plant & machinery with exclusive/first pari passu charge and mortgaged properties:

The value of the leased assets, plant & machinery with exclusive/first pari passu charge 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 plant & machinery with exclusive/first pari passu charge and mortgaged assets will not be revalued for provisioning purpose. Also, the adjustment factors of 80%, 70% and 50% in case of leased and mortgaged assets and 30%, 20% and 10% for plant & machinery with exclusive/first pari passu charge 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% in case of leased and mortgaged assets and 10% in case of plant & machinery with exclusive/first pari passu charge 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 revaluation 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.

(ix) For schedule XII A the following shall be substituted, namely:-

Schedule- XIA

Code of Corporate Governance for Lending NBFCs including Non-Bank Micro Finance Companies
see Regulation 34

[These requirements are in addition to any other applicable requirements regarding directors, CEO, composition of board etc.]

Independent and Non-Executive Directors

1. The independent directors of a Lending NBFC including Non-bank Microfinance Company (NBMFC) shall not be less than two members or one third of the total members of the board, whichever is higher. [To be complied with by Lending NBFCs other than NBMFCs latest by the date of next election of directors becoming due after date of notification of the amendments to the Regulations]

Conflict of Interest

2. A director and chief executive of a Lending NBFC including an NBMFC shall not be a director, consultant, advisor or an employee of any other Lending NBFC including NBMFC or institution engaged in a similar business in Pakistan.
3. The chief executive and board of a Lending NBFC including an NBMFC shall disclose to stakeholders, how many family members are sitting on the board, key positions held and any other such potential conflicting interests in the organization.
4. The board of a Lending NBFC including an NBMFC shall develop policy to prevent conflict of interest in their capacity as members of the board as well as for senior management and other employees as approved by the board. The conflict-of-interest policy should be reviewed at least annually. A Lending NBFC including an NBMFC shall put in place a formal code of conduct that promotes ethical culture in the company.

Women Director

5. While Lending NBFC including NBMFCs are encouraged to have more female representation on their board, the board shall have at least one female director.

Orientation and Training

6. All Directors should receive orientation on the operations of the Lending NBFC including NBMFC and training on their fiduciary roles, responsibilities and liabilities as board members.
7. Board development sessions should be conducted at least once a year with a certificate awarded to the participants.

Board Meetings

8. Board shall hold regular meetings; at least once in every quarter of a year and more frequently, where required.
9. In order to strengthen and formalize decision-making process, significant issues shall be placed for the information, consideration and decision of the board of directors and/or its committees. List of significant issues is attached as Appendix-A.

Board Level Committees

10. Lending NBFCs including NBMFCs shall establish Audit Committee, comprising at least three non-executive directors. The chairperson of the committee shall be an independent director, who shall not be the chairperson of the board. Preferably at least two members having relevant financial/banking expertise and experience must be part of the audit committee. The audit committee of the Lending NBFCs including NBMFC shall meet at least once every quarter of the financial year. A meeting of the audit committee shall also be held, if requested by the external auditors, head of internal audit or by chairman of the audit committee. The board of every company shall determine the terms of reference of the audit committee.
11. There shall be a Human Resource and Remuneration (HR&R) Committee of at least three members comprising a majority of non-executive directors. The CEO may be included as a member of the committee but not as the chairperson of committee. The CEO, if member of HR&R Committee, shall not participate in the proceedings of the committee on matters that directly relate to his/her performance and compensation. The committee shall meet at least once in a financial year and may meet more often if requested by a member of the board, or committee itself or the chief executive officer and the head of human resource or any other person appointed by the board may act as the secretary of the committee. The terms of reference of committee shall be determined by the board.
12. There shall also be Risk Management Committee of the board constituted to supervise overall risk management functions of the institution. It will decide the policy and strategy for integrated risk management containing various risk exposures of the institutions. The Committee would review policies and guidelines for identification, measurement, monitoring and control for all major risk categories. The Board shall determine terms of reference of the Risk Management Committee.

Internal Audit

13. There shall be an internal audit function in every Lending NBFC including NBMFC. The Lending NBFC including NBMFC shall ensure that head of internal audit is suitably qualified, experienced and conversant with the company's policies and procedures. The head of internal audit shall functionally report to the audit committee and administratively to the chief executive officer and his performance appraisal shall be done jointly by the chairman of the audit committee and the chief executive officer.
14. No director on the Board, shall be appointed, in any capacity, in the internal audit function of the company. The Board shall ensure that the internal audit team comprises experts of relevant disciplines in order to cover all major heads of accounts maintained by the Lending NBFC including NBMFC.
15. The internal audit function, wholly or partially, may be outsourced by the Lending NBFC including NBMFC to a professional services firm or be performed by the internal audit staff of holding company and in lieu of outsourcing, the Lending NBFC including NBMFC shall appoint or designate a fulltime employee other than chief financial officer, as head of internal audit holding suitable qualification, to act as coordinator between firm providing internal audit services and the board.
16. While outsourcing the function, the Lending NBFC including NBMFC shall not appoint its existing external auditors or any of its associated company or associated undertaking, as internal auditors.
17. Lending NBFCs including NBMFCs shall ensure that internal audit reports are provided for the review of external auditors. The auditors shall discuss any major findings in relation to the reports

with the audit committee, which shall report matters of significance to the board.

External Auditor

18. A Lending NBFC including an NBMFC shall appoint as external auditors, a firm of auditors, which has been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan and registered with Audit Oversight Board of Pakistan under section 36I of the Securities and Exchange Commission of Pakistan Act, 1997 (XLII of 1997).
19. A Lending NBFC including an NBMFC shall not appoint as external auditors, a firm of auditors, which or a partner of which is non-compliant with the International Federation of Accountants' Guidelines on Code of Ethics, as adopted by the Institute of Chartered Accountants of Pakistan.
20. No Lending NBFC including NBMFC shall appoint its external auditors to provide services in addition to audit except in accordance with the applicable laws or any other regulatory requirement and shall require the auditors to observe and confirm compliance with the applicable International Federation of Accountants guidelines in this regard.
21. A Lending NBFC including an NBMFC shall ensure that the auditors do not perform management functions or make management decisions, responsibility for which remains with the Board and management of the company.
22. No Lending NBFC including NBMFC shall appoint a person as an external auditor who is a close relative (spouse, parents, dependents and non-dependent children) of the chief executive officer, the chief financial officer, the head of internal audit, the company secretary or a director of the Lending NBFC including NBMFC. It shall also be ensured that no person involved in the audit of the Lending NBFC including NBMFC is a close relative of these office holders of the Lending NBFC including NBMFC.
23. A Lending NBFC including NBMFC shall require the external auditors to furnish a management letter to its board and any matter deemed significant by the external auditor shall be communicated in writing to the board prior to the approval of the audited accounts / financial statements by the board.
24. A Lending NBFC including an NBMFC shall change its external auditors every five years.

Related Party Transaction

25. The details of all related party transactions shall be placed periodically before the Audit Committee of the company and upon recommendations of the audit committee the same shall be placed before the board for review and approval.

Appendix-A to Schedule XIA

- i. Annual business plan, cash flow projections, forecasts and strategic plan;
- ii. Budgets including capital, manpower and overhead budgets, along with variance analyses;
- iii. Matters recommended and/or reported by the committees of the board;
- iv. Update on the conflict of interest policy and issues arisen in relation thereof;
- v. Quarterly operating results of the organization as a whole and in terms of its operating divisions or business segments;
- vi. Internal audit reports, including cases of fraud, bribery, corruption, or irregularities of a material nature, management letter issued by the external auditors;
- vii. Policies or amendment to policies such as Credit Policy, Risk Management, Human Resource Management, Procurement of goods and services, Environment and Social Management etc., rule or regulation, enforcement of an accounting standard having material effect and such other matters as may have a material effect on the Lending NBFC including NBMFC;
- viii. Status and implications of any law suit or proceedings of material nature, filed by or against the Lending NBFC including NBMFC;
- ix. Any show cause, demand or prosecution notice received from revenue or regulatory authorities
- x. Failure to recover material amounts of loans, advances, and deposits made by Lending NBFC

- including NBMFC, if such a failure to recover for a single transaction or in aggregate has a material impact on the Lending NBFC including NBMFC;
- xi. Any significant accidents, dangerous occurrences and instances of pollution and environmental problems involving the Lending NBFC including NBMFC;
 - xii. Significant public or product liability claims made or likely to be made against the Lending NBFC including NBMFC, including any adverse judgment or order made on the conduct of the Lending NBFC including NBMFC or of another organization that may have a material negative bearing on Lending NBFC including NBMFC.
 - xiii. Report on governance, risk management and compliance issues. Risks considered shall include reputational risk and shall address risk analysis, risk management and risk communication;
 - xiv. Review of specific Social Performance impact to analyze fulfillment of social targets and to ensure that social performance issues are identified as components of the NBMFC's strategic and business plans.
 - xv. The CEO shall immediately bring before the board, as soon as it is foreseen that the organization will not be in a position of meeting its obligations on any loans (including penalties on late payments and other dues, to a creditor, bank or financial institution or default in payment of any liability) or any other debt instrument. Full details of the failure to meet obligations shall be provided in the Lending NBFC's including NBMFC's quarterly and annual financial statements.

(x) after schedule XVII, the following new schedules shall be inserted, namely:-

“Schedule – XVIII

Maintenance of Website Requirements

See Regulation 37 (2) (r)

An AMCs shall 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 CIS, 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”;

Schedule XIX

Investment Restrictions and Prohibitions

See Regulation 55

1. A CIS 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 CIS 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.

2. An Asset Management Company shall state in the trust deed and specify in the Offering Document of the CIS the type of securities the CIS will invest in and the risks associated with such securities.
3. Subject to clause (4) of this Schedule, exposure of a CIS to any single entity shall not exceed an amount equal to ten per cent of total net assets of the CIS, 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.

4. 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/ Money Market Securities or Instruments)
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
Sector specific fund	20%	20% of a single issue
Capital Protected Fund or Guaranteed Fund	Per company limit as specified in clause (3) of the schedule 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	
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.
--	---

5. An Asset Management Company shall not hold twenty five percent or more of the voting rights or control of a company on behalf of its CIS;

6. An Asset Management Company authorized by the Commission to invest overseas on behalf of CIS shall disclose the same in the Constitutive Document and comply with such conditions as specified by the Commission;

7. An Asset Management Company shall not invest more than twenty five per cent of total net assets of the CIS 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 whichever is higher, subject to maximum of 35%
Shariah Compliant/Islamic Fund	35% or index weight, whichever 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 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.

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

8. An Asset Management Company, on behalf of CIS, shall not take Exposure of more than,-

(a) thirty-five per cent of net assets of CIS in any single group; and

Explanation: For the purpose of sub-clause (a) of clause (8) of this schedule, the term “group” means persons having at least 30% or more shareholding in any other company, as per publicly disclosed information;

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

Provided that an Asset Management Company, on behalf of sector specific fund shall not take exposure more than 20% of net asset of CIS in listed group companies of the asset management company.

9. 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.
10. The Commission may specify different Exposure limits and parameters for CIS depending on its Investment objective and policy.
11. Where the Exposure of a CIS exceeds the limits specified in clause (3), (4) or (7) of this schedule 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.
12. The exposure limits prescribed in clause (8) of this schedule will not be applicable for Index Funds, Capital Protected Fund and Fund of Funds or any other category as specified by the Commission.
13. A CIS 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.
14. The exposure limits prescribed under clause (3), (4), (7) and (8) of this schedule will not be applicable in case of exposure in securities issued or guaranteed by the Federal Government.
15. The exposure limits prescribed under clause (3), (4), (7) and (8) of this schedule for an NBFC exclusively engaged in the business of issuance of guarantees shall be applicable to such limit and conditions as may be notified by the Commission.
16. Subject to clause 17 of this schedule, an Asset Management Company on behalf of a CIS 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 commodities or commodity contracts;
 - (e) invest in securities of the Asset Management Company;
 - (f) invest in any security of a company, if, -
 - (i) any director or officer of the Asset Management Company owns more than five per cent of the total amount of securities issued by that company; or
 - (ii) the directors and officers of the Asset Management Company collectively own more than ten per cent of those securities:

Provided that Clause (15)(f) shall not apply to CIS tracking an index or a sub-set of an index;

(g) borrow in any form, 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 and any net cash flows during interim period shall be utilized for repaying of borrowing:

Provided that an Asset Management Company during the interim period may invest net cash flows for right issues or may invest during the interim period if there is no option in borrowing agreement for early repayment of borrowing;

(h) 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 CIS;

(i) take Exposure in any other CIS, except for fund of funds or overseas investment:

Explanation.- For the purpose of this Regulation “fund of funds” means a CIS set up with the objective to predominantly invest in the securities of other CIS.

Provided that Clause 15(d) shall not apply to shariah compliant CIS entering into commodity based contracts as a vehicle; (a) to place funds or; (b) to borrow funds to meet redemptions, as referenced in clause 15 (g) of this schedule.

17. Clause 15 (a) ,(b), (c) and (d) of this schedule shall not apply to CIS 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.

“Schedule XX

Expenses chargeable to the CIS

See Regulation 60

Notwithstanding the generality of Regulations 60(1) and (2), only the following fees and charges may be payable from the CIS, -

- (a) remuneration of the Asset Management Company;
- (b) remuneration of trustee or custodian;
- (c) listing fee payable to the stock exchange, including renewals;
- (d) charges and levies of stock exchange, national clearing and settlement company and central depository company;
- (e) rating fee of CIS payable to approved rating agency;
- (f) auditors’ fees and out of pocket expenses as billed by them;
- (g) fees payable to the Commission;

- (h) formation cost of the CIS not exceeding 1.5 per cent of the net assets at the close of initial public offering (IPO) in case of an Open End Scheme and one percent of the paid-up capital in case of a Closed End Fund or ten million rupees whichever is lower;
- (i) brokerage and transaction costs related to investing and disinvesting of the assets of the CIS;
- (j) expenses incurred by trustee in affecting registration of all registerable assets in the name of the trustee;
- (k) legal and related costs incurred in protecting the interests of the unit, certificate or share holders of the CIS;
- (l) bank charges, borrowing and financial costs;
- (m) hedging costs including forward cover, forward purchase or option purchase costs;
- (n) printing costs and related expenses for issuing the quarterly, half-yearly and annual reports, etcetera of the CIS;
- (o) taxes, fees, duties and other charges applicable to the CIS on its income or its properties, including taxes, fees, duties and other charges levied by a foreign jurisdiction on investments made overseas;
- (p) any other expense or charge as may be allowed by the Commission.
- (q) fees and expenses related to registrar services, accounting, operation and valuation services related to CIS;
- (r) shariah advisory fee;
- (s) custody and insurances costs relating to the safekeeping of the physical gold in the vault(s) for Commodity Funds; and
- (t) selling and marketing expenses for the purpose of opening and maintenance of branches; payment of salaries/commission to sales team and distributors;
- (u) advertising and publicity expense; development of alternate delivery/distribution channels for CIS:
Provided that selling and marketing expense may be charged for all categories of funds except fund of funds.

Schedule XXI

Responsibilities towards Corporate Governance and Proxy Voting:

[See Regulation 38A]

An Asset Management Company shall:

- (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;
 - (vii) Record keeping of proxy voting;
 - (viii) System to monitor proxy-voting responsibilities;
 - (ix) Circumstances under which proxies shall not be voted; and
 - (x) 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:

	<u>Resolutions</u>	<u>For</u>	<u>Against</u>	<u>Abstain*</u>
<u>Number</u>				
<u>(%ages)</u>				

***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.

(i) formulate a comprehensive stewardship policy duly approved by its Board of Directors covering the following aspects at the minimum:

- (1) policy on stewardship responsibilities;
- (2) policy on voting;
- (3) policy on monitoring the investee company;
- (4) policy for engagement with the investee companies;
- (5) policy on identifying and managing conflicts of interest; and
- (6) policy on how it incorporates sustainability consideration, including Environmental, Social and Governance (ESG) into its investment analysis and activities.

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.

Schedule XXII

Alignment of Interest of Chief Executive Officer, Chief Investment Officer and Head of Investment Committee of AMCs with Unitholders of CIS

[See Regulation 60A]

Minimum requirements with the objective of alignment of interest of key employee (CEO, CIO & Head of Investment Committee) of AMCs with the unitholders of CIS are specified below:

1. In-line with the requirement of Regulation 60A of the NBFC & NE Regulations, 2008, the AMCs are required to put in place a policy approved by the Board of Directors to align the interests of its key employees (CEO, CIO & Head of Investment Committee) with those of the unit holders of the Collective Investment Schemes managed by the AMC.
2. The policy will, at the minimum, address the following areas and aspects:
 - (i) Bonus payable to the aforementioned Key Employees in the form of units of Mutual Fund schemes concerned. The proportion of compensation to be paid in the form of units shall be determined by the Board of AMC.
 - (ii) The manner of payment of bonus in the form of units of CIS will be in accordance with the mechanism as per board's approved policy.
 - (iii) Minimum lock- in period.
 - (iv) The mechanism for forfeiture/claw back of bonuses of Key Employees, in case of fraud, gross negligence, mis-selling or deceptive conduct on part of the key executives comprising

- of portion of compensation to be forfeited, process for determining the fraud, gross negligence, mis-selling and/ or deceptive conduct by a certain key executive, and prevention of moral hazard in implementation of clawback provision.
- (v) Disclosure of such bonus paid to the Key Employees in the form of units of each scheme in aggregate along with the scheme return in respective annual accounts.
 - (vi) Policy for retention of adequate audit trail and record to verify compliance with applicable requirements
3. The AMC will disclose the formulated policy along with summary of any exemption to the policy on its website and annual report.

Schedule XXIII

Trading by Employees


[See Regulation 38B]

An Asset Management Company shall put in place, appropriate policies and procedures which 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.”.

[File No. SY/SECP/8/13]



(Bilal Rasul)
Secretary to the Commission