

**MINUTES OF 9TH MEETING OF THE EXECUTIVE COMMITTEE OF NBFI &
MODARABA ASSOCIATION OF PAKISTAN HELD ON JUNE 09, 2011 AT 3.30 P.M.
AT 602, PROGRESSIVE CENTER, SHAHRAH-E-FAISAL, KARACHI**

Present:-

1. Mr. Basheer A. Chowdry, Chairman
2. Mr. Farrukh S. Ansari, Member
3. Mr. Abdus Samad Khan, Member
4. Mrs. Arjumand A. Qazi, Member
5. Mr. Abdul Ghaffar Umer, Member
6. Mr. Zulfiqar Ali, Member
7. Mr. Amjad Iqbal, Member
8. Mr. Muhammad Samiullah, Secretary General

Leave of absence granted:

1. Mr. Murtaza Ahmed Ali, Vice Chairman
2. Mr. Muhammad Adil Ghaffar, Member
3. Mr. Khaqan Hasnain Ibrahim, Member

The Secretary General confirmed that the quorum being complete the requirements to convene the meeting were duly met. Mr. Basheer A. Chowdry took the chair and called the meeting in order. The meeting started with the recitation of Holy Quran by Mr. Muhammad Samiullah.

Mr. Chowdry welcomed the Members in the Executive Committee meeting of the Association.

The meeting followed the agenda:-

Agenda Item No.1: Confirmation of minutes of 8th EC Meeting held on March 15, 2011:

Mr. Basheer Chowdry invited the members to offer their comments on the minutes of the last meeting. Since there were no comments, the minutes were approved proposed by Mrs. Arjumand A. Qazi and seconded by Mr. Abdus Samad Khan

Agenda Item No.2: Matters arising out of the proceedings of last meeting:

- (1) The Secretary General informed the Committee that a joint meeting of the following Sub-Committees of the Association was held on 18th May, 2011:

- **Rules & Regulations Committee**

Draft Amendments in Non Banking Finance Companies and Notified Entities Regulations, 2008 proposed by SECP were discussed and it was noted that only

one clause 28 (c) which has been proposed to be omitted pertains to the leasing sector. A new clause 29 (b) (vii) has been inserted which pertains to the Investment Finance Services. Comments were called from Trust Investment Bank and Invest Capital Investment Bank Limited.

- **Public Relations Committee**

Web designing was discussed and changes proposed. The matter was further discussed as an agenda item 5.

- **Office Renovation Committee**

The revised estimate submitted by BBCL was discussed and certain amendments were suggested by the members. The matter was later discussed as an agenda item 6.

- **Restructuring of Best Performance Awards Committee**

Certain amendments proposed by Mr. Murtaza Ahmed Ali and Mr. Abdul Ghaffar Umer were discussed. Mr. Minai was requested to get these amendments incorporated in the criteria originally drafted by him. Minutes of the meeting have already been circulated to the members.

(2) Membership of PICG

Membership of PICG approved and letter issued to NBFi & Modaraba Association of Pakistan.

(3) Meeting with the Chairman, SECP and other officials of SECP ON 24TH March, 2011

A meeting of the Executive Committee with the Chairman, SECP and other senior officials of SECP were held on 24th March 2011 to discuss the issues of the members of the NBFi & MAP. Minutes of which have already been circulated to the members.

(4) Launching Ceremony of the Year Book – 2010 of the Association

Launching Ceremony of First Year Book – 2010 of NBFi & Modaraba Association of Pakistan was held on 24th March 2011 at Pearl Continental Hotel, Karachi. Mr. Muhammad Ali, Chairman, SECP was the Chief Guest. Mr. Asif Jalal Bhatti, Executive Director, Mr. Shahid Nasim, Executive Director, Mr. Hasnat Ahmed, Registrar Modaraba and Mr. Nasir Askar, Director, NBFC also attended the launching ceremony.

(5) Workshop on “Overview of Asset & Liability Products

A full day Workshop on “Overview of Asset & Liability Products” was organized by the Association on 10th May 2011 at Pearl Continental Hotel, Karachi. The first session was conducted by Mufti Abdul Sattar Laghari, Shariah Advisor of the Association and

the second session was conducted by Mr. Omar Mustafa Ansari, Head of Islamic Financial Group, Ernst & Young Ford Rhodes Sidat Haider and discussed the practical implementation of Asset & Liability Products. The workshop was attended by 25 participants.

(6) SME Leasing Limited & ENERCON signed an agreement

SME Leasing Limited and ENERCON signed an agreement on April 28, 2011 to promote the use of fuel efficient devices/equipments to control carbon emissions, in the transport sector of Pakistan.

(7) Shariah Compliant Guidelines for Modarabas

SECP issued a draft Shariah Compliant Guidelines for Modarabas and sought the comments of the stakeholders. The Association proposed certain amendments in the guidelines and sent to SECP for their consideration.

(8) Relaxation in NBFC Regulations

The Association requested SECP for the relaxation in NBFC Regulations No.4 (Minimum Equity Requirement) and Regulation No. 25 (Provisions). The matter is pending with SECP. Matter also to be discussed as an agenda item.

Agenda Item No.3: Draft amendments in NBFCs & Notified Entities Regulations, 2008

Mr. Basheer Chowdry informed that SECP has sent a draft amendment in Non-Banking Finance Companies and Notified Entities Regulations, 2008 for our comments. On going through the proposed amendments it has been noted that clause 28(c) has been proposed to be omitted in the leasing sector while one clause 29(b) (vii) has been inserted in the Investment Finance Services to prevent Investment Finance Services from raising deposits in any form including certificate of deposits from any source unless they segregate the brokerage business.. Mr. Chowdry elaborated that this issue has already been discussed with the Investment Finance Services. Since no other issues pertains to the leasing/investment banks sectors, it was resolved that no comments should be sent to SECP in connection with the proposed amendment in NBFC & Notified Entities Regulations, 2008.

The Chairman also informed that the Association has taken up the matter with SECP for relaxation in the NBFC Regulations 4 – Minimum Equity Requirements and Regulations No. 25 for Provisions for Short Term Financing Facilities and Medium and Long Term Financing Facilities. The Correspondence exchanged between the Association and SECP was explained and discussed. The Chairman informed the Committee that the recommendations of the Association to spread the provision and suspension of markup over a period upto July 2014 in a step-up manner have been agreed for the short term finances. However, the period of provisioning for the medium to long term financing over two years (instead of one year proposed by SECP) and start of provisions in such case after 180 days (instead of 90 days) has not been agreed in spite of our giving elaborate justifications.

The Committee members felt strongly the write off of the NPLs in case of medium to long term funding will put undue pressure on the NBFIs and that a referral to SECP should be made to reconsider the matter. The Chairman said that he will send a suitable representation to the SECP and follow it up through discussions.

Agenda Item No.4: Shariah Compliant Guidelines for Modarabas

The Chairman informed the Committee that Mr. Imran Hussain Minhas, Joint Director, sent a draft Shariah Compliant Guidelines for Modarabas for the comments of the Association. These guidelines were circulated to the members for their comments and suggestion. On receipt of the suggestions from the members, a consolidated reply was sent to SECP.

We understand that meeting of the Religious Board has been scheduled on 13th June, 2011 wherein this matter has also been placed on the agenda.

Agenda Item No.5: To approve the template of Website of the Association:

The Secretary General informed the Committee that the Web Designer has sent an amended template in accordance with the suggestions of the EC Members, which was circulated to the Members of the Sub-Committee for their review and comments. Some of the members still have reservations on this template and they wanted some changes in it. The Chairman advised the Secretary General to resend revised template to the members of the Sub-Committee for their review and the finalization within this week. He expressed his discomfort over the fact the Web could not be made operative so far which was detrimental to the image and operations of the Association. He requested the members to conclude the matter within a week or so. Once the Web is functional, further improvements and changes can always be made as a regular process. The Secretary General noted the same for compliance.

Agenda Item No.6: To approve the estimates for Renovation of Office of the Association.

Revised estimates for the renovation of Office Premises duly approved by the Sub-Committee, NBFIs & Modaraba Association of Pakistan were placed before the Executive Committee for their approval. Mrs. Arjumand A. Qazi informed that the Sub-Committee discussed the renovation of Board Room and existing office premises in detail and approved the project in principle and referred the matter to the Executive Committee for its approval.

The EC unanimously approved the revised estimates for the renovation of Office premises submitted by BBCL amounting to Rs.1,389,525/- (Rs.819,555/- for Board Room and Rs.569,970/- for existing office premises). It was pointed out that BBCL has given schedule of payment as under:-

-	Mobilization advance	65%
-	Progressive Payment	25%
-	Balance	10%

The Committee approved Rs.500,000/- advance payment and subsequently payment of Rs.500,000/- during the work in progress and the remaining amount after completion of the work.

Discussing the generation of funds to meet the expenses of the project, it was decided that all the members of NBF & Modaraba Association of Pakistan may be approached for a contribution ranging from Rs.25,000/- to Rs.50,000/- from each member. Any shortfall would be met by the Association itself.

The Chairman advised the Secretary General to send a letter to all the members requesting for this contribution, under his signature. The Secretary General noted the same for compliance.

Agenda Item No. 7: to discuss and finalise the criteria for Best Performance Award

In the sub-committee meeting, Mr. Arjumand A. Minai, CEO, Standard Chartered Leasing and Member of the Sub-Committee was assigned to review the criteria for Best Performance Award, originally designed for Modaraba Association of Pakistan and incorporate the suggestions given by the members of the Sub-Committee. Mr. Minai sent revised criteria to the Association which was circulated to the members of the Executive Committee. Mr. Murtaza suggested that these criteria should first be placed before the Sub-Committee and after discussion the same shall be placed before the EC for its approval.

The Chairman advised the Secretary General to discuss the matter in the sub-committee meeting and submit the recommendations in the next EC meeting. The Secretary General noted the same for compliance.

Agenda Item No.8: Membership of PICG

The Secretary General informed that Board of Directors of PICG has approved the membership of NBF & Modaraba Association of Pakistan. PICG has issued a letter in this regard.

Agenda Item No. 9: To discuss the letter addressed to the Registrar Modaraba regarding appointment of Trustee.

The Secretary General explained the background of this issue. He said that in their Annual Report, 2010, SECP has mentioned that they are examining the possibility of introduction of the concept of "Trustee" in the modaraba structure. Subsequently a news item with the heading "SECP INTRODUCING CONCEPT OF TRUSTEE" was published on the main page of "Business Recorder" dated 25th March, 2011, the very next day of the launching ceremony of Year Book 2010 of NBF & Modaraba Association of Pakistan in which Mr. Mohammad Ali, Chairman, SECP was the Chief Guest.

He added that on 12th May, 2008 a meeting of the Executive Committee of Modaraba Association of Pakistan was held at Karachi with the Registrar Modaraba and after a great deal of discussion it was resolved that appointment of trustee shall not be included in the Finance Bill as it is contrary to the basic modaraba structure. In this connection the Registrar Modaraba has issued a letter to the Association on June 03, 2008.

The Chairman further explained that he has also discussed this issue with the present Registrar Modaraba Mr. Hasnat Ahmed who assured that whenever any action in this regard

would be taken by them, they will refer this issue to the Association for the comments/suggestions and without the consent of the Association no policy matter would be finalized. The Committee decided that at this stage we need not take any action on this matter.

Agenda Item No.10: Any other matter with the permission of the Chair:

i. Cooption of a Member, EC in lieu of Mr. Zaheer Mehdi since resigned

The Secretary General put up before the Executive Committee resignation tendered by Mr. S. Zaheer Mehdi, CEO, Standard Chartered Modaraba as he has been transferred to Standard Chartered Bank. The Committee unanimously accepted the resignation and placed on record its appreciations for the valuable services rendered by Mr. Mehdi as Member of the Executive Committee of NBF1 & Modaraba Association of Pakistan.

The cooption of a member in lieu of Mr. Zaheer Mehdi was discussed and it was resolved unanimously to co-opt Mr. Arjumand A. Minai, CEO, Standard Chartered Leasing Limited in place of Mr. Zaheer Mehdi.

ii. Performance of the Modarabas/Leasing Companies/ Investment Banks as on 31st March, 2011

The Secretary General placed before the Committee a consolidated position of profit and equity of all the members of the NBF1 & Modaraba Association of Pakistan. The Modaraba sector has shown a profit for nine months amounting to Rs.823 million as against annual profit last year amounting to Rs.780 million whereas the leasing companies and investment banks have shown a profit of Rs.105 million as against a loss of Rs.1,169 million last year.

The Chairman and the Executive Committee termed the performance as satisfactory and it was expected that the full year figures would be more progressive.

iii. Investment of Surplus Funds of the Association

The Secretary General informed the Committee that an amount of Rs.2.00 million have been invested in the Certificate of Musharaka of First Habib Modaraba for different periods of time at rates between 11% to 12.5% per annum. He said that the present balance in the account of NBF1 & MAP is Rs.1.3 million and an amount of Rs.0.75 million can be invested for a short period of time.

The Chairman advised the Secretary General to get the rates from other members as well and place the surplus funds with them who give better rates. The Secretary General noted the same for compliance.

iv. Bank Account of Leasing Association of Pakistan at Bank Al-Habib Bank Limited - Deduction of Zakat Issue.

The Secretary General informed that Leasing Association of Pakistan opened its account with Bank Al-Habib Limited in April, 2000 and since then no Zakat is being deducted. In addition LAP invested an amount of Rs.1.4 million with Bank Al-Habib Limited which have since been matured and the proceedings have already been credited in the account. At the time of encashment of this investment, the Bank did not deduct Zakat. Now the Bank informed us on phone that their Auditors have raised query why Zakat has not been deducted on this investment. The Zakat deductible on this investment comes to Rs.35,000/-.Since the Bank has not sent anything in writing to the Association; we have not taken any action on this.

This was just for the information of the Executive Committee

v. Workers Welfare Fund

In terms of Workers Welfare Fund Ordinance, 1971 every industrial establishment is required to pay 2% of the taxable income to the Workers Welfare Fund. However, Mutual Fund has been given exemption from this contribution. Since business model of modarabas is very much similar to the Mutual Fund model and the Modaraba Fund should also be exempted on the same grounds.

The Association has taken up the matter with the authorities of WWF and now SECP has approached the Secretary WWF for grant of this exemption. The matter is still pending with the WWF Authorities.

vi. Levy of Federal Excise Duty on Leasing Companies

Sigma Leasing Corporation Limited and Saudi Pak Leasing Limited have received demand notices from the Deputy Commissioner Inland Revenue, Regional Tax Office, Karachi for the payment of FED for the years 2008, 2009 and 2010. Copies of the demand notices have been sent to the Association for necessary action at Association level.

The Chairman suggested that the leasing companies should obtain legal opinion from their lawyers and on receipt of the opinion the Association will take up the matter with the concerned authorities. The Secretary General informed the Committee that both the leasing companies have already referred the matter to their Consultants and copy of their opinion would be forwarded to the Association as and when received.

There being no other business to be transacted, the meeting ended with a vote of thanks to the Chair.

Muhammad Samiullah
Secretary General