

**MINUTES OF 11TH MEETING OF THE EXECUTIVE COMMITTEE OF NBFI & MODARABA
ASSOCIATION OF PAKISTAN HELD ON 24TH AUGUST 2011 AT 12:30 P.M. AT THE OFFICE OF
TRUST MODARABA, KASSAM COURT, CLIFTON, KARACHI.**

Present:-

1. Mr. Basheer A. Chowdry, Chairman
2. Mr. Murtaza Ahmed Ali, Vice Chairman
3. Mr. Zulfiqar Ali, Member
4. Mrs. Arjumand A. Qazi, Member
5. Mr. Abdul Ghaffar Umer, Member
6. Mr. Amjad Iqbal, Member
7. Mr. Muhammad Samiullah, Secretary General

Leave of absence granted:

1. Mr. Abdus Samad Khan, Member
2. Mr. Farrukh S. Ansari, Member
3. Mr. Khaqan Hasnain Ibrahim, Member
4. Mr. Muhammad Adil Ghaffar, Member
5. Mr. Arjumand A. Minai, Member

Specially Invited

1. Mr. Muhammad Shoaib, CEO, First Habib Modaraba.
2. Mr. Raheel A. Qamar, CEO, Standard Chartered Modaraba.
3. Mr. Adnan Mufti, Tax Consultants, Shekha & Mufti

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. He thanked Mr. Raheel A. Qamar, Chief Executive, Standard Chartered Modaraba and Mr. Muhammad Shoaib, Chief Executive, First Habib Modaraba for attending the meeting on special invitation. He also thanked Mr. Adnan Mufti, Tax Consultants, Shekha Mufti, Chartered Accountants for attending this meeting specially to discuss the issue of Sindh Sales Tax on Services Bills, 2011.

The Chairman requested Mr. Adnan Mufti to update the development in the matter of Sindh Sales Tax on Services as was discussed in the last meeting

Mr. Adnan informed the participants that he had detailed meetings with Mr. Mumtaz Shaikh, Member (Legal), Sindh Revenue Board and finally they have clarified that Modarabas are not

liable to pay sales tax on lease installments/rentals as long as they comprise of mark-up/interest and principal sum. However, SRB has agreed that Misc. income earned by Modarabas and NBFIs would be exposed to the levy of sales tax. In this connection SRB has issued rulings bearing DO No.SRB-STM-3-4/414/2011 dated 24th August 2011, copy of which has already been circulated to the members. In view of these rulings all modarabas may get themselves registered with SRB and pay sales tax on all misc. income earned during the month.

On a query from Mrs. Arjumand Qazi, Mr. Adnan informed that since leasing comes under the NBFC Regulations, same treatment would be adopted as in the case of modarabas. Leasing companies will also pay sales tax on misc. income earned. He said that ORIX Leasing Pakistan Limited is already registered with FED and SRB and they are paying tax on misc. income.

He said that to make the laws familiar to the staff of members of NBFIs & Modaraba Association, a half day workshop at Association's level is being arranged. In this connection, a detailed discussion with the Secretary General has already been held and most probably in the third week of September, 2011, the workshop will be organized.

Mr. Basheer Chowdry thanked Mr. Adnan for holding fruitful negotiations with the SRB to get the clarification issued and also for updating the members on the related matters.

Thereafter Mr. Adnan left the meeting and the remaining agenda of the meeting was attended.

Agenda Item No.1: Confirmation of minutes of 10th EC Meeting held on July 26, 2011.

The Chairman invited the members to offer their comments on the minutes of the last meeting. Since there were no comments, the minutes were approved unanimously by the members of the Executive Committee.

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

The Secretary General informed the Committee the following developments during the period last meeting held.

➤ Sindh Sales Tax on Services

In the last EC meeting a representation was finalized to be submitted to Mr. Mumtaz Ahmed Shaikh, Member (Legal) Sindh Revenue Board. Mr. Adnan Mufti, Tax Consultant submitted this representation on 27th July 2011. Mr. Murtaza Ahmed Ali Vice Chairman and Mr. Muhammad Samiullah, Secretary General were also participated in the said meeting. Thereafter a number of meetings were held with the Chairman, SRB, Member Legal and Member Operations, Sindh Revenue Board. Meanwhile SRB extended the date of payment of sales tax from 15th to 25th August 2011 and date of filing tax return extended to 27th August 2011.

Mr. Adnan Mufti informed that they had another follow up meeting with the Chairman and Member, Legal, SRB on 19th August, 2011. During the discussion Mr. Mumtaz Shaikh,

Member, Legal informed that major issues between FBR and SRB have been resolved. Accordingly, both sides have agreed to extend date of filing of tax returns and date of payment of sales tax. As per the proposed line of action, the FBR will withdraw FED on certain services including banking and allied. Upon this, the SRB will authorize FBR to continue collecting sales tax from such service sectors (including banking and allied sectors) on behalf of SRB. Mr. Shaikh informed that related notifications including an amendment ordinance would be issued by 25th August, 2011 which are being finalized with the help of Law Ministry.

In the light of the above developments, Mr. Shaikh assured us that much awaited rulings for Modaraba Sector would also be issued before the due date of tax payment i.e. 25th August 2011.

➤ **Shariah Compliance and Audit Regulations**

In the month of May, 2011 the Office of the Registrar Modaraba forwarded to us Shariah Compliance Guidelines for Modarabas for the comments/feedback of the Association which were forwarded to them for their consideration.

Now on 11th August 2011 the Registrar Modaraba sent a Draft Shariah Compliance and Audit Regulations for Modarabas for the comments/feedback of the Association.

The Association forwarded these Regulations to the EC Members and subsequently to all the members of the NBF & Modaraba Association for their comments/feedback. Some of the members have sent their comments which will be discussed in this meeting.

Meanwhile the Secretary General has prepared a comparison of the Shariah Compliance Guidelines of State Bank of Pakistan which are being followed by the Islamic Banking Institutions (IBIs) and the proposed Shariah Compliance and Audit Regulations for Modarabas forwarded to us by the Registrar Modaraba. This comparison will be discussed in this meeting.

➤ **Renovation of Office Premises**

The renovation work of the office premises is under process and about 85% work has been completed. BBCL is trying to complete the work before Eid-ul Fitr. The renovation work started on 26th June 2011 and should have been completed within 40 days i.e. by 15th August 2011. Uptill now the Association has paid Rs.1,000,000/- to BBCL. The members of the Association have contributed Rs.500,000/- and still follow up is being made and contribution from some members are in the pipelines.

Mrs. Arjumand A. Qazi, Member, EC and CEO SME Leasing Limited has taken keen interest in the renovation work and visited a number of times and gave valuable suggestions for improvement in the renovation work. Mr. Basheer A. Chowdry, Chairman also visited the office a number of times and gave valuable suggestions.

Other members are requested to please visit the office premises before it is completed.

➤ **Website of the Association**

Development work of the website of the Association is in the process and most of the work has been completed. Members may visit the website on www.nbfi-modaraba.com.pk and they are requested to please send their input on it at the earliest.

➤ **Criteria for Best Performance Award**

The issue could not be discussed in the meeting of the Sub-Committee. It will be finalized and put up in the next EC meeting for its final approval.

Agenda Item No.3: To discuss and update Sales Tax on Services Bill, 2011

The matter has already been discussed in the beginning of this meeting and Mr. Adnan Mufti has updated the development in the matter.

Agenda Item No.4: To discuss Draft Shariah Compliance & Audit Regulations.

The Chairman informed the Committee that this matter is of vital importance as these Regulations will have a direct impact on all the modarabas, as such before proceeding ahead every clause of the Shariah Compliance and Audit Regulations will have to be discussed in line with the feedback of the members. He emphasized that State Bank of Pakistan and other Islamic Banks are not considering modarabas as Shariah compliant. In the recent past Meezan Investment Management Limited had included the name of modarabas in the prohibited entities and this aspect was placed on their website which created a bad impact on modarabas. The Association had a detailed meeting with the Chief Executive and Shariah Advisor of Meezan Investment Management Limited and succeeded in removing the name of the modarabas from the list of the prohibited entities. Moreover, some of the modarabas informed us that Islamic Banks and Islamic Mutual Funds have refused to finance them on the plea that modarabas are not shariah compliant. In view of this it is essential for modarabas to follow Shariah Compliance & Audit Regulations to make them shariah compliant.

The Chairman said that we have also gone through the Shariah Compliance Guidelines of State Bank of Pakistan which are being followed by the Islamic Banking Institutions (IBIs) and a comparison of which has been placed before the members for discussion in this meeting.

He added that earlier he had discussed the matter in detail in a meeting in which Mr. Murtaza Ahmed Ali, Vice Chairman, Mr. Mohammad Shoab, CEO, First Habib Modaraba and former Chairman, MAP and Mr. Muhammad Samiullah, Secretary General participated. The amendments proposed in the said meeting are also being placed before this Committee for discussion and finalization.

The Shariah Compliance & Audit Regulations prepared by the Registrar Modaraba, consists of three parts as under:-

Part I - General

Part II - Shariah Compliance

Part III - Shariah Audit

The members approved the proposed amendments in the Part I and Part II of these Regulations. As far as the Part III i.e. Shariah Audit is concerned there were some reservations of the members in implementing this part of the regulation.

Mr. Muhammad Shoaib said that State Bank of Pakistan has issued only guidelines for the IBIs and not Regulations while SECP is going to issue Audit Regulations. Secondly it is not possible for every modaraba to appoint a separate Shariah Auditor as it will increase the additional expenditure. He suggested that Internal Shariah Audit Department should be made responsible for complying with these Shariah Compliance and Audit Regulations as SBP has also strengthened the Internal Shariah Audit Department. For the purpose, we may also strengthen the existing staff by giving them PGD training. He elaborated that Centre of Islamic is offering PGD Training courses and some of the staff members of modarabas have completed this training.

Mr. Amjad Iqbal informed the Committee that ORIX Leasing Pakistan Limited has opened an Islamic window and started functioning by offering Islamic modes of financing to their clients. He said that they have arranged a short course of three months in consultation with the Centre of Islamic and a special syllabus was prepared /designed to train the concerned staff. On completion of the course successfully Justice (R) Mufti Taqi Usmani Saheb distributed the Certificates to the participants of the Course. He added that ORIX Leasing Pakistan Limited has appointed Mufti Essa Ibrahim as their Shariah Advisor.

The Chairman appreciated the efforts of ORIX Leasing Pakistan Limited and said that the Association may also approach Centre of Islamic and arrange such short training programs to train the staff of modarabas. He further said that with the completion of the renovation work of the office premises of the Association, an infrastructure would be available to undertake such training programs at the Association level.

Mr. Abdul Ghaffar Umer informed that they have decided to outsource this function to M/s. Sidat Haider. The matter is still under consideration and a number of meetings in this connection have been held. The progress in the matter will be conveyed to the Association in due course.

The Committee also discussed the feedback/comments given by the members through e-mails including Mr. Mohammad Adil Ghaffar, Mr. Jalaluddin Ahmed, Mr. A. W. Rahi and others.

In conclusion, the Chairman said that the proposed amendments in the Shariah Compliance & Audit Regulations would be finalized in line with the recommendations of this committee as well as feedback received from the members and a revised Shariah Compliance & Audit Regulations would be sent to the members for their input and thereafter these Regulations would be submitted to the Registrar Modaraba for consideration and holding a meeting with the Association to discuss.

Agenda Item No.5: Any other matter with the permission of the Chair.

i. Renovation of Office Premises

Mrs. Arjumand informed the members that renovation work is nearing completion and that she is satisfied with the quality of work as she is frequently visiting the office premises.

The Chairman said that it should have been completed by now. What are the reasons of this delay. The Secretary General informed that due to Ramadan ul Mubarak, the working hours have been reduced as such the completion time has been affected. He expected that the work will be completed by 10th September 2011 and would be ready for inauguration.

On a query the Secretary General informed that still a number of members of the Association have not sent their contributions towards this expenditure. It was suggested that the EC Members may persuade such members to send their contribution so that payments may be made to M/s BBCL who are undertaking this renovation work. The Secretary General was advised to send the names to EC members who shall use their good offices to persuade the members to pay the contribution. The Secretary General noted the same for compliance.

ii. Website of the Association

Mr. Amjad Iqbal informed that the Web designer has almost completed his job and various files are being uploaded. In this connection certain difficulties are being faced which will be overcome soon. After Eid holiday a meeting has been arranged to resolve these impediments.

The Chairman emphasized that website of any organization is very important and it should be completed immediately. He urged to complete the web designing at the earliest possible time. Mr. Amjad Iqbal and Secretary General assured that they will make every effort to complete the job at the earliest.

iii. Criteria for Best Performance Award

The Secretary General informed that since Mr. Abdus Samad Khan was on leave, the matter could not be discussed. However, he will discuss the matter and finalise the same after Eid holidays.

iv. Benefits admissible to the staff of NBFi & Modaraba Association of Pakistan

The Secretary General informed the Committee members that in 8th EC Meeting held on March 15, 2011 it was approved that the staff of Leasing Association of Pakistan and Modaraba Association of Pakistan would become the staff of NBFi & Modaraba Association of Pakistan. It was further approved that the salaries and other benefits as admissible will remain the same.

Mr. Zulfiqar Ali pointed out that the details of the benefits previously admissible to the Staff of MAP and LAP and now admissible to the staff of NBF1 & Modaraba Association of Pakistan should have been clearly mentioned in the minutes.

For the sake of clarity, the details of the benefits admissible to the staff of NBF1 & Modaraba Association of Pakistan are given hereunder:

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| 1. Bonuses: | Two Gross Salaries
To be disbursed on 1 st Ramadan and Eid-ul Azha every year. |
| 2. Medical Facilities: | Two basic salaries per annum. |
| 3. Gratuity: | One basic salary for each year of service. |
| 4. Leave: | 25 days earned leave
10 days casual/sick leave |
| 5. Leave Encashment | No roll over would be permitted, However, in special cases when due to exigencies of work, leave cannot be sanctioned, encashment of leave subject to a maximum of 12 days may be allowed with the prior approval of the Chairman. |

It was further confirmed and recorded that the above ratification had been sought only as a matter of record and will not accrue any benefit to any staff member in addition to what they were previously entitled.

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

Muhammad Samiullah
Secretary General