

MINUTES OF 13TH MEETING OF THE EXECUTIVE COMMITTEE OF NBFI & MODARABA ASSOCIATION OF PAKISTAN HELD ON 21ST OCTOBER 2011 AT 3:30 P.M. AT THE AUDITORIUM OF NBFI & MODARABA ASSOCIATION OF PAKISTAN, KARACHI

Present:-

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

Leave of absence granted:

1. Mr. Khaqan Hasnain Ibrahim, Member
2. Mr. Arjumand A. Minai, Member
3. Mr. Zulfiqar Ali, Member
4. Mr. Amjad Iqbal, Member

Following Executives were specially invited to attend the meeting:-

1. Mr. Raheel Q. Ahmed, CEO, Standard Chartered Modaraba
2. Mr. Muhammad Shoaib Ibrahim, CEO, First Habib Modaraba
3. Mr. A. W. Rahi, MD, First UDL Modaraba

Mr. A. W. Rahi attended the meeting while Mr. Muhammad Shoaib Ibrahim was out of country and Mr. Raheel Q. Ahmed was busy in Board meeting.

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 from Holy Quran.

The Chairman informed the members about the sad demise of the mother of Mr. Farrukh S. Ansari, Member Executive Committee and requested the members to offer fateha for the departed soul. All the members offered fateha and prayed for her.

The meeting followed the agenda:

Item No.1: Confirmation of minutes of 12th EC Meeting held on October 04, 2011

The Secretary General informed the Committee that two observations have been received from Mr. Murtaza Ahmed Ali that those modarabas who are not affected by the Sindh Sales Tax Act, 2011 will not agree to share the charges amounting to Rs.150,000/- to be paid to Mr. Adnan Mufti, Tax Advisor. He suggested that the amount should be shared by all those Modarabas involved in the financing facilities.

The second observation received was about the need of appointment of Mr. Adnan Mufti as Tax Advisor on retainership basis at a fee of Rs.20,000/- per month. He was of the view that we can use his services as and when need arises for any issue. Paying Rs.240,000/- per annum to Mr. Adnan is waste.

The Chairman informed that the amount will be shared by those modarabas involved in the financing facility. In this connection the Association is sending a letter to all such modarabas requesting them to make the payment at the earliest as the payment of Rs.150,000/- to be paid to Mr. Adnan Mufti is overdue. Secondly appointment of Mr. Adnan Mufti is on a temporary basis initially for a period of six months and if need arises the retainership will be continued. Moreover, this package includes conducting of workshops to the members of NBF1 & Modaraba Association in connection with the Sindh Sales Tax on Services. In this connection a workshop has already been organized on 19th September, 2011 and the follow up workshop will be held in the current month.

Thereafter, the minutes were approved unanimously by the members of the Executive Committee.

Item No.2: To discuss draft Circular No. SCD/M/SCSAM/2011 dated 15th October 2011 of Registrar Modaraba regarding Shariah Compliance and Shariah Audit Mechanism for Modarabas

Consequent upon discussion held during the meeting of Modaraba CEOs with the Registrar Modaraba on 23rd September 2011, the Association have been following up with the Registrar Modaraba various concerns expressed by the participants about the periodical implementation of the proposed Shariah Compliance & Shariah Audit Mechanism. The Registrar Modaraba and his team have been very accommodative and have shown complete understanding and appreciation of the practicalities explained by the Association Members.

Subsequently, the Registrar Modaraba sent a Draft Circular No.SCD/M/SCSAM/2011 dated 15th October 2011 for discussion at Association level and after getting the feedback from the Association the said circular will be issued by the Registrar Modaraba.

The draft circular was sent to all EC members and comments/suggestions were invited from them. Again a number of concerns were expressed by the members. After taking into consideration these concerns of, the Chairman, finalized the recommendations and placed before the Executive Committee for further discussion and approval. These are summarized as under:-

1. Clause No.3 to be deleted.

2. Delete the word “external” in Clause No.5(x)
3. Replace the word “Auditor” from “Advisor” in Clause No. 1(vi) of Part I – Shariah Compliance.
4. Replace the word “Haram” with the word “Non-compliant” in the entire circular wherever used.
5. In Clause No. VIII (1) of Part II – Shariah Audit time frame for establishment of Internal Shariah Audit department by every modaraba has been given on or before 31st December 2011. It should be changed and at least three months period may be given to comply with this clause.
6. Add the following paragraph after Clause No.3 of Part II - Shariah Audit.
“As an interim arrangement, a training program shall be launched to convert the Internal Audit Department of the modaraba into Internal Shariah Audit Department. In order to examine the work of Internal Shariah Auditor, a panel of 4 or 5 Shariah Advisors shall be appointed for and provides guidelines. The formal implementation of the proposed framework shall be deferred to 1st July, 2012.
7. The word “Auditor” may be replaced with “Advisor” in line with Islamic Banks’ practice in all the clauses wherever used in the Circular.
8. Replace the date 30.06.2012 with “31.12.2012” in the clause IX (2) – External Shariah Audit.

Mr. A. W. Rahi, MD, First UDL Modaraba suggested that the “Screening Procedure” needs to be reworded. The Chairman requested him to please send his proposal at the earliest so that the same may be included in the reply of the Association. Mr. Rahi agreed to send the same at the earliest possible time.

It was finally decided that the Association will send the reply to the Registrar Modaraba after incorporating the comments of Mr. A. W. Rahi on “Screening Procedure”.

Item No. 3: To discuss the proposal regarding impairment in Value of Investment

Mr. Adil Ghaffar in the last meeting pointed out that International Accounting Standards applicable on Modarabas requires that any impairment in the value of investments made by a modaraba should be provided, periodically in the books of accounts. This provision, though a book entry only, had various implications which adversely affect the equity of the modaraba.

In this meeting Mr. Adil Ghaffar gave a detailed presentation on the Impairment in Value of Investment and explained his contention with examples. He suggested that the matter should be discussed personally with the Registrar Modaraba. The Chairman suggested that a detailed letter may first be sent to the Registrar Modaraba and if need arises, a delegation of two/three persons will meet the Registrar Modaraba personally in Islamabad. The Chairman advised Mr. Adil Ghaffar to prepare a draft letter covering all the aspects of his presentation.

Item No.4: To discuss draft concept paper regarding Statutory Reserve

Mr. Adil Ghaffar also pointed out in his presentation that in terms of Clause 2 of Part III of Prudential Regulations for Modarabas states that every Modaraba shall create reserve fund to which shall be credited (a) an amount not less than 20% and not more than 50% of its after tax profits till such time the reserve fund equals the amount of the paid up capital; and (b) thereafter a sum not less than 5% of its after tax profits.

The clause further explained that Issuance of bonus shares may be made from the above mentioned reserves or the reserves available after appropriation made under clause (a) or (b) whichever may be the case and since such bonus shares will increase the paid up capital, the modaraba shall transfer further amounts to the reserves in order to comply with condition of clause (a).

Mr. Adil explained that such kind of reserves are created and maintained by financial institutions as a secret reserve for strengthening of balance sheet and to mitigate any unforeseen events. Thus the equity of the institution becomes healthier and the regulatory requirements are also met. He raised a question how to utilize these reserves as the law does not provide an absolute and clear elaboration

It was also agreed that this matter should also be taken up with the Registrar Modaraba. The Chairman advised Mr. Adil to prepare a draft letter addressed to the Registrar Modaraba and send to him for onward submission to the Registrar Modaraba.

Item No.5: To discuss the FPCCI letter regarding invitation of Nomination of Members for General Body and the Executive Committee of FPCCI for the year 2012

It was unanimously agreed to nominate Mrs. Arjumand A. Qazi as a Member for General Body and the Executive Committee of FPCCI for the year 2012, on behalf of the NBF & Modaraba Association of Pakistan.

Item No.6: First Annual General Meeting of NBF & MAP and Best Performance Awards Ceremony

Mr. Basheer A. Chowdry pointed out that the most important event for the Association is meeting with the Chairman, SECP and his team on 31st October, 2011 at the time of First Annual General Meeting of NBF & Modaraba Association of Pakistan and Distribution of Best Performance Awards to the best performers of the Association.

He said that the event will be divided into two parts. First the Annual General Meeting will be held for which agenda has already been circulated to the members. The main item of the agenda would be approval of accounts and appointment of auditors. The second part would be Best Performance Awards Ceremony in which he will make a detailed presentation to the Chairman on the performance, pertinent issues and more importantly on the challenges being faced by the sector for its future. He said that the Chairman, SECP has agreed to share his vision and plans for re-modeling and restructuring of the NBF & Modaraba Sectors.

The Chairman invited the EC Members to share with him their ideas in the preparation of the Presentation to be made on 31st October, 2011 before the Chairman, SECP. Various suggestions were made by the participants:

- Mr. A. W. Rahi suggested that the Presentation to the Chairman, SECP should be precise.
- Mr. Adil Ghaffar pointed out that due to the financial crisis globally the Regulators all over the world are softening the regulatory measures.
- It was suggested that a working group may be established to examine the future of NBFIs.
- Mrs. Arjumand A. Qazi pointed out that the our request for relaxation in Minimum Equity Requirement and Provisioning Requirements may be decided at the earliest as it becomes difficult to answer the Auditors on these points.
- REIT activities may be allowed to NBFIs & Modaraba Sector and the regulatory requirements for undertaking this business may be softened.
- Although performance of the modaraba sector is satisfactory but still full potential of the modaraba sector have not been utilized.

Discussing the Performance Criteria, the Chairman said that no material changes have been made in the criteria. Only marks allocated to Financial Evaluation have been reshuffled by the Sub-Committee. We understand that some members have concerns about the performance criteria. Since the time is too short, there will be no change this year in the performance criteria. However, it is requested that the members may send their recommendation for the change in the performance criteria, if any, which will be considered and discussed in the Sub-Committee Meeting and then put up to the Executive Committee for approval. In this connection, a separate letter will be sent to the members by the Association in due course.

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

Muhammad Samiullah
Secretary General