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CHAPTER 20

SECURITIES

1. Definitions.

Section 2 of the Act defines "security" as shares, stocks, bonds, debentures, debenture stock and Government securities etc as defined in the Securities Act, 2015, deposit receipts in respect of deposit of securities and units or sub-units of unit trusts but does not include bills of exchange or promissory notes other than Government promissory notes. A "foreign security" is defined as a security issued elsewhere than in Pakistan and any security the principal of or interest on which is payable in any foreign currency or elsewhere than in Pakistan. For the purpose of Section 13 of the Act, the term "security" also includes coupons or warrants representing dividends or interest and life or endowment insurance policies.

For the purposes of Section 13 of the Act, the term "a person resident outside Pakistan" covers a foreign national including a foreign national of Indo-Pakistan origin as also a Pakistani holding dual nationality for the time being resident in Pakistan and a company registered in Pakistan which is controlled directly or indirectly by a person resident outside Pakistan. In this connection a reference is also invited to para 2 of Chapter-19.

2. Export of Foreign Securities.

A Pakistan national resident in Pakistan who is, or becomes owner of foreign securities is permitted to hold or retain such securities provided he has acquired them in a manner not involving a breach or violation of the Foreign Exchange regulations. In terms of clause (a) of sub-section 1 of Section 13 of the Act, the taking or sending of any securities to any place outside Pakistan except with the general or special permission of the State Bank, is prohibited. Persons in Pakistan who are holders of foreign securities and who wish to send/sell or transfer these securities to any foreign natural or juridical person should apply to the State Bank through an Authorized Dealer for export of such securities.

In the case of sale, the sale proceeds in foreign currency will be received into Pakistan through banking channel. State Bank may also consider applications for exchange/swap of foreign shares and/or securities held by residents of Pakistan with shares and/or securities issued in Pakistan held by residents abroad, at fair value of respective securities on a particular date. Applications for this purpose shall be made to the Director, Exchange Policy Department, State Bank of Pakistan, Karachi through an Authorized Dealer along with evidences of acquisition of such securities and other necessary documents. For the purpose of such swap arrangements, valuation involved have to be made by a QCR rated audit firm or an accredited valuator in respect of shares and/or securities issued in Pakistan and by a valuator abroad registered with the appropriate regulatory authority in respect of foreign shares and/or securities.

3 Export of Pakistani Securities.

Pakistan Nationals as also "persons resident outside Pakistan" desirous of acquiring/holding Pakistani securities except against general permission of the State Bank are required to obtain prior permission of the State Bank. Application for the purpose should be made to the Director, Exchange Policy Department, State Bank of Pakistan, Karachi through an Authorized Dealer.

4 Transfer/Pledge of Securities to/with Non-Residents.

In terms of clause (b) of sub-section 1 of Section 13 of the Act, transfer of any security or creation or transfer of any interest in a security to, or in favour of "a person resident outside Pakistan" is prohibited except with the general or special permission of the State Bank. The above prohibition applies to transfer of right relating to (i) all Pakistani securities whether held by persons resident in or outside Pakistan and (ii) all foreign securities held by Pakistan nationals. Pledging of securities with or in favour of non-residents e.g., as collateral or security for credit facilities from abroad, (see Chapter 19) or utilizing them for settlements of which a non-resident is the beneficiary is also prohibited under Section 13 of the Act. In the case of securities held by residents or non-residents in Pakistan, the companies concerned must obtain permission of the State Bank before transfer of its rights in the name of "persons resident outside Pakistan".

5 General Exemption for Export of Securities .

The State Bank has granted general exemption from the provision of section 13(1) of the Act in connection with the issue, transfer and export of securities on repatriable basis. Securities of companies, incorporated in Pakistan, issued/transferred to non-residents shall be intimated/registered with the State Bank of Pakistan by the companies through their Authorized Dealer provided:

- i) The issue price or purchase price as applicable, is paid in foreign exchange through normal banking channel by remittance from abroad or out of foreign currency account maintained by the subscriber/purchaser in Pakistan, if such foreign currency accounts are fed with the remittances from abroad with an amount equivalent to actual purchase consideration, except in case of issue of bonus shares and transfer of shares as stated in paragraph 7, sub-paragraphs (v)- (c), (f) (g) & (h).
- ii) The purchase price (whether negotiated privately or otherwise) is not less than the closing price quoted on the Pakistan Stock Exchange as on the date of the transaction, in the case of listed securities, and the breakup value of shares as on the month-end-date immediately preceding to the date of transaction , as certified by a QCR rated practicing Chartered Accountant as per applicable guidelines issued by Institute of Chartered Accountants of Pakistan, in the case of unlisted securities.

Companies &/or its foreign investor through Authorized Dealer shall approach for prior concurrence of the State Bank for transactions involving inflow of funds for acquisition of Shares/securities by foreign investors at a price that is below the investment criteria for listed and unlisted securities as stated above.

This intimation/registration of securities will be considered on submission of the prescribed information/documents(duly attested by the applicant) in respect of such securities which are issued to or acquired directly from the resident companies excluding the purchase of securities from Pakistan Stock Exchange by routing investment funds through Special Convertible Rupee Accounts by the non-residents as under:

- (a) A Pakistan national resident outside Pakistan.
- (b) A person who holds dual nationality including Pakistan nationality, whether living in or outside Pakistan.
- (c) A foreign national, whether living in or outside Pakistan.
- (d) A firm (including a partnership) or trust or mutual fund registered and functioning outside Pakistan, including entities owned or controlled by a foreign government except India and Israel and those specifically restricted by the Government of Pakistan.

The above exemption/registration also applies in the following cases:

- (a) Issue of securities/shares including Modaraba Certificates/Fund Units/NIT units.
- (b) Private placement of new/initial shares with foreign investors by a public or private limited company in line with the prevalent Investment Policy of the Government of Pakistan and regulations of Securities and Exchange Commission of Pakistan.
- (c) Transfer of Pakistani securities held by a “person resident outside Pakistan” on repatriable basis to other eligible ‘persons resident outside Pakistan’ on the same basis against payment outside Pakistan provided a certificate to this effect is given by the transferee to the company concerned.
- (d) Issue of rights shares and bonus shares in all those cases where shares are held on repatriable basis by ‘persons resident outside Pakistan’ in accordance with the general or special permission of the State Bank.
- (e) Issue/transfer of rupee denominated corporate equity/debt securities
- (f) Companies issuing shares in favor of nominee directors (nominated by foreign investor) shall approach the State Bank, for their registration in the prescribed manner. Subsequent transfers of such nominee shares shall also be registered with the State Bank on submission of Appendix V-95, Transfer Deed/Certificate, and Board’s Resolution along with other necessary documents.

6 Requirements for Registration with the State Bank against Issuance of Shares.

- (i) Companies issuing shares out of new public offers on repatriable basis may open foreign currency collection accounts with banks abroad or in Pakistan for receiving the subscription in foreign currency. They may also allow refunds from these accounts to unsuccessful applicants. The amount subscribed by the successful applicants should be repatriated to Pakistan and shall be converted in local currency and both foreign currency accounts should be closed within a week of allotment of shares. Proceeds Realization Certificate in evidence of subscription money having been repatriated to Pakistan shall be obtained by the company from the concerned Authorized Dealer for submission in original through the Authorized Dealer with the form prescribed at Appendix V- 95 along with other prescribed documents for registration of shares in favour of the non-resident investor.
- (ii) In the case of remittance of subscription money directly to Pakistan and its payment to the company’s rupee account, only shares issued for the rupee equivalent paid by the concerned Authorized Dealer as shown in the Proceeds Realization Certificate (s) would be considered for registration.
- (iii) In case shares are to be issued to non-resident sponsors against the value of plant and machinery supplied by them, an application should be submitted to the area office of the Foreign Exchange Operations Department for issue of an Exchange Entitlement Certificate along with the relative import documents viz. original invoices, - goods declaration, copies of bills of lading or airway bills and import permit/import authorization from Trade Development Authority of Pakistan, if applicable and any other document required by Foreign Exchange Operations Department. The Exchange Entitlement Certificate will be issued by the area office of Foreign Exchange Operations Department at the average of interbank buying and selling rates on the dates of filing of goods declaration with the Customs. Once the Exchange Entitlement Certificate has been issued by the area office of Foreign Exchange Operations Department, the company after issuance of the shares upto the value mentioned in the Certificate to the

non-resident sponsors shall approach State Bank through the Authorized Dealer for registration of shares

(iv) In case the non-resident sponsors want to pay their contribution to the equity in foreign currency and such payments are retained in a foreign currency account opened with an Authorized Dealer in Pakistan, in terms of paragraph 9 (ii) of Chapter 6 of this Manual, the Authorized Dealer concerned will issue a certificate with the title “Certificate of Deposit of Foreign Currency” (COD) showing date-wise deposit of equity in the account and exchange rate for the respective currency prevailing on the date on which the amount is credited to the company’s foreign currency account. The exchange rate shall be the ready Exchange Rate for Mark to Market Revaluation by Authorized Dealers in Foreign Exchange published by Domestic Markets & Monetary Management Department of State Bank. The company after issuance of shares against Rupee equivalent on receipt of foreign currency in its account may approach State Bank for registration of shares.

(v) In case shares are to be issued against conversion of loan into equity on repatriable basis. The company may approach the State Bank through its designated Authorized Dealer with its application along with an original NOC/consent of the lender (duly attested by the company), Board’s Resolution, and evidences in respect of receipt of inward remittances in the form of original PRCs, registration of loan, if applicable, including other prescribed documents. Registration of issuance of shares will be allowed against outstanding balance of loan at a particular month end date. The issuance of shares against conversion of loan into equity will be governed under the provisions of Paragraph 6(ii) above for the minimum per share price.

(vi) In case shares are to be issued against amount of Royalty/ Franchise/Technical/Consultancy Fee/and other consideration payable to foreign entities or individuals in foreign exchange, the concerned company may issue shares to the extent of funds determined remittable and duly approved by Foreign Exchange Operations Department, SBP, BSC, Head Office, Karachi in accordance with the applicable provisions of the Manual. Accordingly, the company shall approach the State Bank for the registration of such shares along with the said authorization/ approval from the Foreign Exchange Operations Department including other prescribed documents.

(vii) In case shares are to be issued by a Banking company in Pakistan to its non-resident sponsors, submission of consent/NOC/approval of SBP’s Banking Policy & Regulations Department (BPRD), as applicable, shall be required in addition to other prescribed documents for registration of shares.

(viii) The shares issued/transferred to non resident shareholders and duly filed with Securities and Exchange Commission of Pakistan (SECP) shall be intimated for registration with the State Bank by the company through an Authorized Dealer or its designated Authorized Dealer within 60 days from the date of issue/transfer of shares. Such application shall accompany with the form prescribed in Appendix V- 95 or Appendix V- 96, as the case may be, along with the following documents and other prescribed documents viz. Certificate of Incorporation/ Registration, Certificate of Commencement of Business, Certificate of Change of Name, Memorandum and Articles of Association etc., if not already submitted: -

a) In case of issue of ordinary shares, Proceeds Realization Certificate (PRC) bearing distinctive numbers in original (Appendix V-97) with copies of the return of allotment of shares (Form-3), latest list of directors (Form-29) and annual return of company having share capital (Form-A) filed by the company with the SECP.

(b) In the case of issue of right shares, Proceeds Realization Certificate (PRC) bearing distinctive numbers in original, copies of the related returns of SECP along with Board’s Resolution.

c) In the case of issue of bonus shares, Appendix V- 96 duly certified by the Auditor to the effect that issuance of bonus shares is in accordance with the existing applicable laws and the audited accounts for the respective year, a copy of Board's Resolution, , and copies of the related returns filed by the company with the SECP

d) In the case of issue of ordinary shares against equity contributed in the shape of plant and machinery under paragraph 7 (iii) Exchange Entitlement Certificate issued by the area office of Foreign Exchange Operations Department in original.

e) In the case of issue of ordinary shares under paragraph 7 (iv) against equity deposited in a foreign currency account, Certificate of Deposit of Foreign Currency" (Appendix V-97A) bearing distinctive number in original.

f) In the case of transfer of listed shares, Stock Broker's Memo and PRCs in respect of the cost of shares and transfer stamp money, both in original. Where the sale of shares is negotiated privately, share purchase agreement and the price of the share on Pakistan Stock Exchange on the date of transaction , should be furnished.

g) In the case of transfer of shares of un-listed companies, Auditor's certificate in original for breakup value as on month-end-date immediately preceding to the transaction date, a copy of the audited accounts of the respective year, documentary evidence of the agreed sale price and original PRCs in respect of cost of shares and transfer stamp money.

h) In the case of transfer of shares from one non-resident to another non-resident against payment outside Pakistan, certificate from the transferee and PRCs for transfer stamp duty both in original.

7. Due Diligence on Foreign Investor

Further, in order to enhance due diligence with respect to export of securities to non-resident investors, Authorized Dealers are required to submit the following documents/information with regard to non-resident investors (where applicable) in addition to the existing requirements:

- a. Formal Share Purchase Agreement or equivalent between the Investor & Investee.
- b. Business profile containing ownership, organization/group, locations, markets and products.
- c. Promoters'/ Directors' names, addresses, national ID/passport numbers & country of domicile.
- d. Certificate of Incorporation or equivalent issued/acknowledged by the relevant Authority.
- e. Memorandum & Articles of Association or equivalent registered with the relevant Authority.
- f. Annual Audited Financial Statements with Auditors' report & notes thereon for the last year.
- g. Pattern of Shareholders (name, national identity number & shares held) or equivalent.
- h. Related Party details including beneficial ownership with aforementioned documents, if any.

Authorized Dealers shall maintain centralized record/data of all such cases as well as securities of non-residents already registered on the aforementioned parameters along with the details of Investment/Dividend repatriated and update the same for On-site inspection /Off-site monitoring by SBP.

8. Designation of Authorized Dealer

At the time of approaching state Bank for initial registration of shares the companies shall also nominate an Authorized Dealer for the purpose of remittance of dividend/disinvestment proceeds to their non-resident shareholders, if not already designated by the State Bank. Accordingly, companies shall invariably approach the State Bank through their designated Authorized Dealers for all the matters ancillary to subsequent registration of issue of right/bonus shares, transfer of shares, and remittance of dividend/disinvestment proceeds etc.

Designated Authorized Dealer shall be responsible to maintain complete and centralized record of shares registration and its all related matters, in electronic form as well, including an up-to-date position of shares registration on a specified format (Appendix V-99) to be filled in by the company for the submission to its designated Authorized Dealer after registration of shares.

Companies intending to change its designated Authorized Dealer shall approach the State Bank with cogent reasons/rationale for change of their designated Authorized Dealer. Such application shall be forwarded through newly nominated bank with the confirmation that it has acquired all the related record of shares registration and an NOC issued by the previous bank will also be submitted for change of the designated bank.

9. Remittance of Dividend/ Disinvestment Proceeds

The designated Authorized Dealer after having complete record/evidences of registration of shares of company in favor of non-residents on repatriable basis, as outlined above, may allow remittances in respect of the following:

- (I) Dividend, net of applicable taxes, as permitted under paragraph 16, Chapter 14 of the Manual
- (II) Disinvestment proceeds not exceeding the closing market value as on the date of the transaction (in case of listed securities)/breakup value as on the date which is the nearest or immediately preceding to the execution of the transaction(in case of unlisted securities) less brokerage/commission on submission of:
 - (a) Name and address of the non-resident share holder.
 - (b) Name and address of the company whose shares were sold by the non-resident beneficiary, indicating whether it is a listed or unlisted/private limited company and is covered under para 6 ibid. (This requirement may be waived by the Authorized Dealer in case of quoted shares).
 - (c) Name, address and residential status of the buyer of the shares in question.
 - (d) Copy of broker's memo in case of quoted shares/break up value certificate of a QCR rated practicing Chartered Accountant in case of unlisted shares.

Companies &/or its foreign investors through Authorized Dealer shall approach for prior concurrence of the State Bank for transactions involving outflow of funds for sale of securities by foreign investors at a price that is above the disinvestment criteria for listed and unlisted securities as stated above.

10. Issuance of Duplicate Certificates for Registration of Shares

Duplicate PRCs/CODs are considered towards registration of shares in case the original PRCs/CODs are reportedly lost/misplaced. Authorized Dealer concerned, after proper due diligence and indemnification, may issue duplicate PRCs/CODs with new as well as old distinctive numbers on the specific request of the beneficiary &/or company after satisfying itself about the stated reason(s) for the lost certificates by the beneficiary &/or company. However, Authorized Dealer will be held responsible if fake duplicate PRCs/CODs are found to have been issued without underlying foreign exchange remittances. Authorized Dealer may approach the State Bank with the application of the company for registration of shares against issuance of duplicate certificates provided such application is accompanied with a duly notarized indemnity bond-cum-undertaking in original on stamp paper of minimum value of Rs. 500/-. (Appendix V-98).

11. Monthly Statements and Reporting

Authorized Dealers are required to submit electronically, statement showing shares registered and held by 'persons/ entities resident outside Pakistan and statement showing issue and export of bonus shares to non-resident shareholders to the Statistics & Data Warehouse Department of the State Bank on format Appendix V- 95A & 96A at fca.stat@sbp.org.pk by 5th of the following month. Further, the designated Authorized Dealer shall maintain complete record of the shares held by non residents including proof of original investment in foreign exchange and other documents detailed above and shall produce the same for inspection by State Bank inspection team. No record shall be destroyed unless the same has been inspected by the State Bank's inspectors.

12. Issue of Securities and NIT Units to Persons Resident outside Pakistan on non-repatriable basis and its transfer on the same basis.

(i) It is permissible to issue Pakistani Securities of all types including NIT Units but excluding shares of companies not quoted on Pakistan Stock Exchange, in favour of persons resident outside Pakistan, on non- repatriable basis, if payment is made either in foreign exchange or in Pakistan rupees provided the securities are registered at the Pakistan address of the purchaser and a clear undertaking is furnished by him that no repatriation of capital and profits/dividends accruing thereon will be claimed at any stage.

(ii) Such securities may also be transferred to a person, whether resident in or outside Pakistan, on the same basis, provided the securities are registered at the Pakistan address of the purchaser and a clear undertaking is given by him/her that no repatriation of capital and profit/dividend accruing thereon will be claimed at any stage.

(iii) A person resident outside Pakistan holding shares on non- repatriable basis may also be issued bonus/right shares as per his entitlement, on the basis of non-repatriation of capital and dividend.

13. Trading of Quoted Shares by Non-Residents.

(i) Non-residents are allowed to trade freely in the shares quoted on the Pakistan Stock Exchange. For this purpose the non-residents will be required to open "Special Convertible Rupee Account" (SCRA) with any Authorized Dealer in Pakistan. Such accounts can be fed by remittances from abroad or by transfer from a foreign currency account maintained by the non-resident investor in Pakistan, provided such accounts are also fed with remittances from abroad. The balance available therein can be used for purchase of any share quoted on the Pakistan Stock Exchange. Payment for such purchases may be debited to the account on production of stock broker's memo showing sale of shares to the account holder and disinvestments proceeds may be credited, provided evidence of the sale price in the shape of stock broker's memo is produced. The fund available in such special accounts can be transferred outside Pakistan or credited to a foreign currency account maintained in Pakistan at any time without prior approval of the State Bank . These accounts can also be credited with dividend income. Transfers from one such account to another may also be made in case of transfer of shares between the two account-holders. Non-residents are also allowed to trade in shares in Ready/Cash/Futures Markets through SCRA, subject to the following procedure:

- (a) A separate sub-account under SCRA shall be opened by foreign investors through which an investor will route receipts/payments, initial margin, mark-to-market settlement, transaction charges, commission, fees etc.
- (b) Margins relating to Ready/Cash/Futures may also be routed through this account. However, while allowing refund of the margin through SCRA to a non-resident, the Authorized Dealer should ensure that the broker has quoted the date and instrument number under which the margin was received by them.

- (c) Authorized Dealers shall report information on market value of foreign investments through future trading in their weekly returns to the Statistics and Data Warehouse Department on the revised proforma (Appendix V-100). The daily statement showing inflow/outflow and opening/closing balances in the SCRA shall however, continue to be reported to the Statistics and Data Warehouse Department on the prescribed proforma Appendix V-100.
- (ii) The commission earned by the international brokers from their overseas clients and credited net of taxes to the broker's SCRA account may be remitted by the Authorized Dealers provided the funds so credited have emanated from inward remittances or paid out of SCRA of the investor.
- (iii) Head/ Principal Offices of all Authorized Dealers are advised to submit statements to Statistics and Data Warehouse Department, State Bank of Pakistan in the excel format on daily and weekly basis showing the position of Special Convertible Rupee Accounts (SCRAs) maintained with them by non-resident investors. The format can be downloaded from the following link:

http://www.sbp.org.pk/Regulatory_Returns/stats.htm

The above information should be reported to Statistics and Data Warehouse Department, State Bank of Pakistan through email scra@sbp.org.pk.

14. Trading of Pakistan Investment Bonds, Treasury Bills, Registered Corporate Debt Instruments and Registered Bonds listed with Pakistan Stock Exchange in the Secondary Market.

Non-residents are allowed to trade freely in Pakistan Investment Bonds (PIBs), Treasury Bills (TBs), Registered corporate debt instruments and Registered Bonds listed with Pakistan Stock Exchange if the relevant S.R.Os permit non-residents to hold the bonds in the secondary market, through SCRAs subject to the instructions applicable to these accounts as contained in the preceding paragraph (9).

15. Special Instructions regarding shares transferred under Central Depository System (CDS) of Central Depository Companies (CDC).

(i) General.

Separate account or sub-account will be opened & maintained at CDC for each non-resident investor eligible for investment in registered shares/securities quoted at Pakistan Stock Exchange.

It must be ensured that all transactions at CDS i.e., deposit into or withdrawal from the account/sub-account of a non-resident is supported by actual movement of funds. In other words, there should not be any netting/adjustments and payment/receipt in respect of each purchase/sale should be settled independent of other transactions of the non-resident. In case the investment by the non-resident is made/routed through his SCRA maintained with an Authorized Dealer in Pakistan, the SCRA should never show an overdrawn position. The securities available in account/sub-account may be pledged in favor of National Clearing Company of Pakistan Ltd. in case of non-availability of funds in SCRA to meet margin requirements against purchase/sale transactions of non-resident investors in ready/cash market till settlement of respective transaction.

(ii) Initial transfer in the name of CDC.

While approving the initial/first-time transfer of shares/securities purchased/held by non-residents, in the name of CDC for deposit into CDS, the company concerned will ensure that the shares are already registered in its record on repatriable basis in the name of the non-resident concerned. If the shares are not already so registered, the company will obtain requisite documents issued in the name of

investor concerned, i.e., broker's memo, proceeds realization certificates (PRCs) for cost of shares purchased and transfer stamp duty, or where the shares have been purchased from another non-resident shareholder against payment outside Pakistan, the transferee's certificate along with PRC for transfer stamp duty.

(iii) Subsequent transactions i.e., deposit/withdrawal at CDS.

(a) Where investments are made through GDRs, the Authorized Dealer concerned will continue to ensure that complete/proper record of all transactions is kept at their end and the prescribed statements of SCRA's are furnished to the State Bank as usual, as at present documents involving such investment would not be required to be submitted to the company at any stage.

(b) In case of investments not involving SCRA, the original documents as listed at (ii) above will be submitted as usual to the respective company by the 'Participant' concerned alongwith a certificate that the shares are in the name of CDS and have since been deposited into/withdrawn from the respective non-resident's account at CDS. The company after making necessary entry in its record to update CDC's non-resident holding, will furnish the same to the designated Authorized Dealer. The Authorized Dealer will keep these documents in its record for onward submission to State Bank in the prescribed manner alongwith returns pertaining to dividend/ bonus or right issue and will as usual make the remittance of disinvestment proceeds of such shares subject to the prescribed drill/rules.

(iv) Dividend Payment/allotment of bonus or right shares.

CDC will issue to the respective company a list of beneficial non-resident shareholders certifying their individual holding as on Ex-date of dividend/bonus/right in the form appearing at Appendix V-101. Before issue of dividend warrant or allotment of bonus/right shares, the company will verify the holding of non-residents not involving SCRA's from its record including those as mentioned in sub-para (iii) (b) and for the non-residents investing through SCRA's, it will obtain an undertaking-cum-certificate from the Authorized Dealer concerned on the form appearing at Appendix V-102, and on the basis of this undertaking-cum-certificate it will certify Appendices V-54 & V-95 and V-96 for such shares. The aforesaid list provided by CDS will invariably be attached by the company to the aforesaid returns.

16. Investment by branches of Foreign Banks and Foreign Controlled Investment Banks.

Branches of foreign banks in Pakistan and foreign controlled investment banks incorporated in Pakistan are permitted to invest in Pak. Rupee denominated registered listed corporate debt instruments issued in Pakistan, provided such investment is made through initial public offerings and secondary market purchases, and further provided that investment in those debt instruments which are convertible into shares does not exceed 30% of the paid-up capital of the issuing company or 30% of the paid-up capital and reserves of the investing institution, whichever is less. The profit/interest accruing on such investment will be treated as their income for the purpose of profit/dividend remittance.

17. Under-writing of shares, term certificates and Modaraba certificates by foreign banks.

Underwriting of shares, participation term certificates etc., by foreign banks' branches in Pakistan eventually involves holding of those shares/securities which are not taken up by the general public, and as such attracts the provisions of Section 13(1) of the Foreign Exchange Regulation Act, 1947. Foreign banks' branches in Pakistan have general permission to under-write the issue of shares to the extent of 30% of the public offering or 30% of its own paid-up capital and reserves, whichever is less. They are also permitted to under-write public issues of participation term certificates, term finance certificates and modaraba certificates, provided that where the terms and conditions of issue of such

securities grant an option to the holders to convert the securities into ordinary shares, the restrictions of 30% as mentioned above would apply.