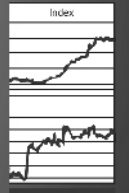




	31.12.2003	31.12.2002
<b>CAPITAL AND RESERVES</b>		
Called-up capital	10,000,000	10,000,000
Reserves	17,000,000	17,000,000
Minority interests	1,000,000	1,000,000
Other reserves	1,000,000	1,000,000
<b>TOTAL</b>	<b>19,000,000</b>	<b>19,000,000</b>
<b>LIABILITIES AND DEFERRED LIABILITIES</b>		
Liabilities	10,000,000	10,000,000
Deferred liabilities	9,000,000	9,000,000
<b>TOTAL</b>	<b>19,000,000</b>	<b>19,000,000</b>



# 2 ANNUAL REPORT 2003

## Chairman's Secretariat

- Operational Structure
- Internal Audit
- Vigilance
- External Communication
- Financial Markets and Governance Programme
- Project on Corporate Governance
- Anti-Money Laundering Unit
- International Organization of Securities Commissions

## 2. CHAIRMAN'S SECRETARIAT

### 2.1 Operational Structure

#### 2.1.1 Structure

The Chairman's Secretariat (CS) coordinates the overall functioning of the Commission and liaises with external bodies, including media, local agencies and multilateral organizations. In addition, the CS supervises the internal audit and vigilance functions within the Commission and is responsible for the management of donor-funded projects. As of 30 June, 2003, it comprised the following Wings and Units:

- Internal Audit
- Vigilance
- External Communication
- Financial Markets and Governance Programme
- Project on Corporate Governance
- Anti-Money Laundering

#### 2.1.2 Management Team

Ms. Sadia Khan, Executive Director heads the CS. Prior to her current assignment, she was heading the Specialized Companies Division of the Commission. She has several years of financial sector and capital market experience with international financial institutions. She is assisted by various professionals in the CS for internal coordination, external communication and project execution.

Mr. Hayat Jasra, Executive Director serves as Secretary to the Commission. He has been associated with the Commission and the former CLA for over twenty-five years.



Ms. Sadia Khan, Executive Director (right) with officers of the CS

### 2.2 Internal Audit

The Internal Audit Wing, an independent appraisal function, examines and evaluates the adequacy and effectiveness of the Commission's system of internal control. It ensures the reliability and integrity of information, compliance with policies, procedures, laws, regulations and contracts, the safeguarding of assets and the economical and efficient use of the Commission's resources. During the year under review, the Wing carried out the following activities:

- i reviewed the payroll, revenue and procurement systems;
- ii reviewed the efficacy of Management Information System (MIS) reports and the completeness of personal files;
- iii carried out pre-audit of all payment vouchers at the head office;
- iv carried out post-audit of all imprest vouchers at the Company Registration Offices (CROs);
- v analyzed the control environment at the CROs in Karachi, Lahore and Faisalabad;
- vi carried out physical verification of assets; and
- vii assisted the management in formulating a policy for transfer and disposal of fixed assets.

### 2.3 Vigilance

During the year under review, the Vigilance Cell (VC) continued to ensure expeditious resolution of investors' complaints. The complaints received during the year were significantly less in comparison to the previous year, which may be explained by reduced investor dissatisfaction with companies and market intermediaries, resulting in fewer disputes. This is partly indicative of the effectiveness of reforms instituted by the Commission for reform of the capital market and its participants.

Table 1 below shows that altogether 424 complaints, appeals and petitions were received by the VC during the year as against 604 during the previous year. Of the 424 receipts during the year and eighty-three brought forward from last year, as many as 466 complaints, etc. were disposed of while about forty-one were outstanding at the end of the year.

Table 1 Disposal of Complaints, Petitions and Appeals (July 2002-June 2003)

S. No.	Receipts	Brought Forward	Received	Total	Disposed Of	Outstanding
1	Complaints	49	351	400	377	23
2	Petitions	4	22	26	15	11
3	Appeals	30	51	81	74	7
	<b>Total</b>	<b>83</b>	<b>424</b>	<b>507</b>	<b>466</b>	<b>41</b>

A synopsis of the complaints lodged and resolved during the year is given in Table 2 below.

**Table 2** Details of Complaints

S. No.	Nature of Complaints	Brought Forward	Received	Total	Disposed Of	Pending
1	Issue of duplicate shares under Section 75 of the Companies Ordinance, 1984 (the Companies Ordinance)	—	1	1	1	—
2	Transfer of shares under Section 76 of the Companies Ordinance	—	31	31	31	—
3	Verification of transfer deeds	—	6	6	6	—
4	Payment of dividend under Section 251 of the Companies Ordinance	—	71	71	71	—
5	Non-receipt of annual and half yearly accounts	—	25	25	25	—
6	Complaints against brokers	44	80	124	103	21
7	Miscellaneous	5	137	142	140	2
	<b>Total</b>	<b>49</b>	<b>351</b>	<b>400</b>	<b>377</b>	<b>23</b>

The on-line link established via the Commission's website for lodging complaints was frequently visited by investors as well as the general public. Through this link, the VC received sixty-three complaints and queries regarding various issues. These were forwarded to the relevant Divisions of the Commission for expeditious disposal. Predominant amongst these complaints were those pertaining to unauthorized brokerage and deposit-taking companies. Based on these complaints, the VC forwarded its observations to the CLAD with recommendation for necessary investigation and action.

The Complaints Monitoring System (CMS), a custom-designed software application, was developed and tested during the year under review. This software is being installed to reduce the time between receipt of a complaint, appeal or petition in the VC and that of its disposal by the relevant Division. The CMS was designed with the objective to monitor and coordinate appropriate resolution of complaints, etc. at the Commission on a daily basis. The CMS provides access to the database of receipts in the VC and can generate reports according to the criteria required.

## 2.4 External Communication

Adhering to its policy of a participative approach for effective implementation of reforms in the financial market and the corporate sector, the Commission continued to strengthen its external communication efforts. During the course of the year, while the media was generally supportive of the regulatory measures taken by the Commission, positive criticism continued to guide the Commission and provide feedback on the practical difficulties faced by the stakeholders. Moreover, handouts of developments in the Divisions and press briefings arranged with the Chairman of the Commission remained a regular feature of the External Communication Wing. These handouts helped in countering misconceptions about the reforms while assisting the market to accept and implement them in their true spirit.

During the year under review, a number of articles were written on various aspects of the financial sector, especially on the performance of the stock market. This was primarily due to the exceptional performance of the market. The External Communication Wing played its role in providing regular input so as to deter speculation and maintain a clear perspective of the market in the media.

The Wing was also actively involved in arranging various seminars in Karachi, Lahore and Islamabad during the course of the year. A newsletter, providing an update of the Commission's activities, was published every quarter. The newsletter has been appreciated within and outside Pakistan and has facilitated the exchange of ideas with international counterparts. The various issues of the newsletter can be accessed through the Commission's website.

## 2.5 Financial Markets and Governance Programme

In continuation of the capital market reforms undertaken during the last three years under the Capital Market Development Programme Loan of the Asian Development Bank (ADB), the ADB approved another integrated assistance package of three loans and two political risk guarantee facilities under the Financial Markets and Governance Programme (FMGP). The second phase of reforms in Pakistan, under the umbrella of FMGP, is largely developmental in nature; it primarily seeks to support the development of Pakistan's non-bank financial market through reform, capacity building and international private sector participation.

The main objectives of the FMGP are to:

- i strengthen market soundness, stability and investor confidence through improved governance, transparency and risk management;
- ii improve availability of and access to financial instruments for savings and investment and related services; and
- iii improve market efficiency and attractiveness to issuers and investors, including institutional and foreign investors.

Under FMGP, the Commission is the implementing agency to facilitate a consultancy assignment under one of the Technical Assistance (TA) loans to strengthen regulation, enforcement and governance of non-bank financial markets. The TA assignment focuses on operations of a wide array of financial intermediaries, i.e. stock exchanges, non-banking finance companies (NBFCs) and insurance companies. Specifically, a detailed review of the regulatory framework of NBFC and insurance sectors will be undertaken. Likewise, the assignment will address the areas of demutualization and electronic trading systems for the stock exchanges. Capacity building of the Commission and other market participants will also form a major part of the consultancy assignment.

The loan negotiation and consequent conditions as per a policy matrix were finalized with the ADB in October 2002. Subsequently, loan agreements were executed in Philippines in March 2003. During the year, the Commission established an independent FMGP Project Management Unit and hired a Project Manager to handle all project related assignments. It also carried out short listing of consultants for the TA assignment, which was endorsed by the ADB. The short-listed consultants were invited to submit their detailed technical proposals, which would be reviewed in making the final decision.

## 2.6 Project on Corporate Governance

Pursuant to the introduction of the Code of Corporate Governance in March 2002, the Commission signed a Memorandum of Understanding (MoU) with the UNDP and the Economic Affairs Division of the Government of Pakistan in August 2002. The MoU focused on undertaking a one-year project on corporate governance with the underlying objective to encourage compliance with the principles of good corporate governance. Under this umbrella, UNDP committed technical and financial assistance to the Commission in developing and implementing good corporate governance practices and establishing a sound regulatory framework for the corporate sector in Pakistan.

The Commission identified four main priority areas for improvement of the corporate governance framework in Pakistan. These included: (i) implementation of the Code of Corporate Governance; (ii) creating stakeholder awareness; (iii) capacity building of the Commission; and (iv) networking with other markets.

### 2.6.1 Implementation of the Code of Corporate Governance

During the course of the year, the project conducted two seminars in Lahore and Islamabad, respectively, on Strengthening Corporate Governance in Pakistan and Corporate Social Responsibility. In addition, targeted research through short-term consultancy assignments was initiated in the areas of:

- i harmonization of the Code of Corporate Governance with other laws/regulations in Pakistan;
- ii evaluation of the state of corporate governance in Pakistan and assessment of the impact of the Code of Corporate Governance; and
- iii feasibility study for the Institute of Corporate Governance in Pakistan.

While the report on harmonization of Code with corporate laws was finalized during the year, the other two assignments were in progress as on 30 June, 2003.

### 2.6.2 Creating Stakeholder Awareness

One of the major objectives of the project is broadening the understanding of stakeholders on corporate governance issues. In this regard, four workshops were held in major cities of Pakistan to highlight the statutory and fiduciary responsibilities of directors and the role of management in a good corporate governance framework. These events enabled participants to learn from the experiences of senior representatives of leading local companies, gain and understand the international perspective from foreign speakers as well as learn about the regulatory perspective from the Commission.

During the course of the year, the project also developed publications on significant aspects of corporate governance. The first publication on the "Frequently Asked Questions on the Code of Corporate Governance" was published in November 2002 to facilitate awareness and elucidate various requirements of the Code. A series of briefing notes on corporate governance was also initiated in January 2003 to promote awareness of the topic. Each issue of the series focuses on a key aspect of corporate governance. The project also began issuing a quarterly electronic newsletter to facilitate awareness regarding corporate governance developments in Pakistan. In addition, the project published an 'Insurance Guide' to enable the public to learn about the insurance industry and the various types of insurance offered in Pakistan.

The project undertook an indigenous research on "Institutional Shareholders and their Role in the Promotion of Corporate Governance in Pakistan". The working paper focuses on institutional shareholders as agents in improving corporate governance. It looks at the ownership structure of listed companies, nature of institutional investors, scope for institutional activism and need for policy intervention. The paper also suggests areas of corporate governance, which require the focus and attention of institutional investors.

### 2.6.3 Capacity Building of the Commission

A Corporate Governance Cell has been established at the Commission, incorporating a research and resource center. This unit is involved in policy-oriented research, creating awareness on corporate governance in Pakistan and issuing publications on the topic.

The project seeks to provide learning opportunities to officers of the Commission to enhance their understanding of key governance issues, familiarize them with latest international developments and augment their regulatory and enforcement capabilities. In this regard, training opportunities were arranged for several officers of the Commission during the year. These included:

- i South Asian Federation of Accountants (SAFA) International Conference on The Accounting Profession: Way Forward in Karachi in June 2003;
- ii workshop on International Accounting Standards (IASs) and the SAFA Regional Seminar in Colombo, Sri Lanka in July 2003; and
- iii study tour to Companies Commission of Malaysia in July 2003.

The project also created an electronic resource center to house articles and information related to various aspects of corporate governance. The center is regularly updated with the latest information on corporate governance developments and is accessible through the Commission's website. Currently open to officers of the Commission, the resource center will be accessible to the public at large in the near future.

### 2.6.4 Networking with Other Markets

In order to keep pace with international developments on corporate governance, the Commission felt it necessary to engage in continuous consultation with other markets. The consultation, through information sharing, training programmes and dialogue, will result in an interchange of views and will help refine corporate governance practices in Pakistan on the basis of international experiences. During the course of the year, participation was made in the following:

- i consultative meetings in November 2002 with the Monetary Authority of Singapore, Singapore Exchange Limited, Issuer Regulation Department, Singapore Institute of Directors, Securities Commission of Malaysia, Kuala Lumpur Stock Exchange, Malaysian Institute of Corporate Governance, Securities and Futures Commission of Hong Kong, Hong Kong Exchanges and Clearing Limited, International Finance Corporation, Asian Corporate Governance Association, and Hong Kong Institute of Directors;
- ii consultative meetings with the Institute of Directors, London Business School, Adam Smith Institute, and South Bank University in the UK in May 2003;
- iii Fifth Asian Roundtable on Corporate Governance in Kuala Lumpur, Malaysia in March 2003;

- iv Fourth International Conference on Corporate Governance in London, UK in May 2003; and
- v Second Humboldt Forum on Corporate Governance in Berlin, Germany in July 2003.

## 2.7 Anti-Money Laundering Unit

In January 2003, an Anti-Money Laundering Unit (AMLU) was established at the Commission as part of its continued efforts towards bringing more transparency in the financial market. The AMLU has been set up under the World Bank's TA for combating money laundering and terrorist financing. While SBP is the implementing agency for this TA for banking sector reforms project, the Commission has been awarded a four-year specialized project. The project focuses on capacity building of the Commission, consulting assignments, networking with other markets, and research and publications.

The major objectives of this project are to:

- i review and harmonize existing laws/regulations for ensuring better documentation and reporting of transactions;
- ii strengthen the capacity of the Commission so that it is able to play a more proactive role in curbing money laundering activities and ensuring authentic capital flows within the financial system; and
- iii through a consultative process, create awareness among stakeholders about the need for an anti-money laundering framework.

The project will carry out amendments in laws enforced by the Commission and bring them in line with international anti-money laundering measures e.g., reporting of irregular financial transactions, customer identification, record keeping standards, internal policies and controls and verification of accounts through coordination with agencies. Studies and reports on best practices for development of the capital market will also be developed under this project.

### 2.7.1 Activities and Achievements

In addition to setting up of the AMLU at the Commission, the following major activities were undertaken during the year for carrying out the objectives of the assistance provided by the World Bank:

- i a Research Associate was hired to carry out research in the area of money laundering legislation and its implications on investment flows;
- ii recommendations were formulated to effectively combat money laundering, on the basis of which the Commission adopted the following measures:
  - a. development of a comprehensive account opening form focusing at "knowing-your-customer" by the stock exchanges for introduction at the time of account opening at the broker level;
  - b. designation of compliance officers whose responsibilities would not only be to ensure NBFCs' compliance with laws and regulations of the Commission but also to monitor adherence to anti-money laundering procedures;
  - c. payment through cheques or negotiable banking instruments for money transactions above Rs. 50,000 by or to NBFCs, modarabas and insurance companies; and

- d. no physical settlement of shares, which requirement would be provided legal cover through rules/regulations of all the stock exchanges;
- iii training and networking opportunities were arranged for officers of the Commission in the following forums:
  - a. seminar on Securities Enforcement and Market Oversight (Enforcement Institute) arranged by the Securities and Exchange Commission in Washington D.C., USA in November 2002;
  - b. workshop on Asia Pacific Group's 2002 Money Laundering Trends and Typologies in Vancouver, Canada in October 2002;
  - c. visit to Financial Services Authority in the UK and Securities and Exchange Commission, Treasury Department, State Department and World Bank in the USA by Chairman, accompanied with Executive Director, CS in December 2002; and
  - d. training programme at the International Institute for Securities Market Development in Washington D.C., USA in April-May 2003;
- iv officers of the Commission also participated in the first video conference on combating Money Laundering and Terrorist Financing Activities held at the World Bank, Islamabad in October 2002; and
- v an informative 'Brief Series' pertaining to money laundering concepts and issues was developed.

## 2.8 International Organization of Securities Commissions

The Commission continued to play an active role in the activities of the International Organization of Securities Commissions (IOSCO). The Commission was also honoured to chair the Working Group 3 of the Emerging Markets Committee of IOSCO. The representatives of the Commission attended the following international meetings and seminars in connection with IOSCO.

- i IOSCO Seminar Training Programme relating to implementation of the IOSCO Objectives and Principles of Securities Regulation and commitment of regulators to enhance cooperation through IOSCO MoU held in Madrid, Spain in October 2002.
- ii IOSCO Asia Pacific Regional Committee meeting and Enforcement Directors meeting held in Colombo, Sri Lanka in January 2003 on matters pertaining to regulation of terminals placed by overseas exchanges or trading systems and investor protection from market misconduct and false and misleading statements.
- iii IOSCO Emerging Markets Advisory Board meetings held in Melbourne, Australia in February 2003. These meetings were hosted by the Australian Securities and Investment Commission. Meetings of IOSCO Technical Committee and Executive Committee were also held where Pakistan headed the Technical Committee on Financial Intermediaries.
- iv IOSCO meeting of the Standing Committee 3 of the Technical Committee at the offices of the USA Securities and Exchange Commission in Washington in June 2003 on matters relating to regulation of market intermediaries in cross-border environment and the types of capital adequacy regimes applied to securities firms. In addition, the principles underlying financial reporting including current reporting practices as well as proposals for client asset protection were discussed.

Further, the Commission extended maximum cooperation and assistance to IOSCO in gathering requisite information relating to the monitoring and regulation of secondary markets, market intermediaries and collective investment schemes.