

The report has been prepared in pursuance of section 25 of the Securities and Exchange Commission of Pakistan Act, 1997 for the purpose of reporting the activities and performance of the Commission during the period, 1st January, 1999 to 30th June, 2000.

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i. CHAIRMAN'S STATEMENT

I have great pleasure in presenting the first Report of the Securities and Exchange Commission of Pakistan (the Commission), which became operational on 1st January 1999. The Commission became financially autonomous six months later, with effect from 1st July, 1999. This report covers the working of the Commission for the initial 18 month period i.e. from 1st January 1999 to 30th June, 2000.

I took over as Chairman of the Commission on 31st March, 2000. Mr. Shamim Ahmad Khan, my predecessor, was Chairman from 1st January, 1999 until March this year. I must acknowledge the contribution made by Mr. Shamim Ahmad Khan in not only establishing the Commission but also successfully guiding its operations during its infancy. Mr. Khan can be rightly proud of leading the process of restructuring the Corporate Law Authority (CLA, the Authority), a government department, into an autonomous securities commission, which was indeed a very challenging task. Only a respected civil servant who is also imbued with the requisite professional and technical skills relevant to a deep understanding of capital market issues (a combination that is rare) could have accomplished this with the aplomb displayed by Mr. Khan.

The period under review is characterised by momentous developments in terms of reshaping of the legal framework and regulatory system, development of market institutions and infrastructure, and streamlining of government policies with regard to the capital market. Some of these steps constituted a fundamental departure from the past. These would, I am sanguine, have a positive impact on capital market development.

The foremost measure adopted is, of course, the establishment of an autonomous Securities and Exchange Commission. This was long over-due. The policies of liberalisation implemented in the 1990s led to rapid expansion in Pakistan's capital market, which called for a more professional approach towards regulation. As a department of the government, the CLA could not possibly meet the new challenges arising out of dynamic market development. The Authority was unable to recruit professionally qualified staff, as it was obliged to follow the government's salary structure for civil servants. Although the Authority strived to play its statutory role of regulating the market, the limitations imposed upon it by virtue of being a government department were too obvious.

The establishment of the Commission was accompanied by a number of other initiatives and an agenda of reforms under the umbrella of the Capital Market Development Programme (the Programme) of the Asian Development Bank (ADB). This Programme, initiated in 1997, comprehensively covered key aspects of capital market development. It focused on creating an enabling policy environment, strengthening governance and market institutions, modernising market infrastructure, developing corporate debt market and promoting mutual funds, leasing and insurance industries. We have been able to substantively implement the Programme that reflects not only our commitment but also our capacity to implement reforms in the financial sector. The Programme also reflects the high priority attached by the Government to the establishment of an efficient and fair capital market. I must take this opportunity for placing on record our profound gratitude to ADB for extending their assistance and providing us a framework of reforms for the capital market.

Under the Programme, steps were taken to improve the management of stock exchanges and their Boards were restructured to give a voice to non-members in their management. The market infrastructure was also developed and government policies were streamlined with the objective of providing a level playing field to private sector mutual funds vis-à-vis the public sector that continues to dominate in this field.

Given the dynamic nature of the corporate sector, company law has to keep pace with and anticipate developments in the corporate sector. During the period under review significant changes, some of them fundamental in nature, were made in the Companies Ordinance, 1984. Companies have now been allowed to issue more than one kind and class of shares removing the limitations in existence since 1984. Listed companies have been allowed to purchase their own shares within parameters defined by the Commission. Disclosure requirements in the Directors' Report have been expanded. The law has been amended to enable Employees Stock Option Schemes. An important development during the period was notification of rules governing asset-backed securitization. A new set of rules regulating leasing companies has been promulgated that combines all the fragmented rules on the subject. Several International Accounting Standards (IAS) were adopted in order to move closer to global accounting standards. The system of the issuance of corporate bonds was simplified. Importantly, the Commission prompted a code of corporate governance to be prepared by the Institute of Chartered Accountants of Pakistan (ICAP), which is now under active consideration.

We are conscious of the criticism that is often levelled against regulatory bodies for being weak in enforcement albeit the existence of excellent laws. The Commission, despite being engaged in considerable administrative work during its infancy, sharpened its focus on enforcement of corporate laws. During the period under review, the Commission has exercised a higher degree of vigilance to ensure statutory compliance by listed companies as well as due protection of minority shareholders. The Commission firmly believes that future development and consolidation of the corporate sector largely depend on shareholder and investor confidence, which can be bolstered by an effective mechanism of enforcement.

Despite a number of initiatives taken by the Commission during the period under review, the market remained under pressure due largely to external factors. The stock exchange indices showed volatility as a consequence of non-market considerations. During the period, we also noticed weaknesses in the risk management system of the stock exchanges. The Commission intends to deal with these issues in an effective manner.

We have a vision of transforming the Commission into a more professional regulatory body with effective enforcement capability and to develop an efficient and fair capital market. In the coming years, the Commission would be further strengthened and its working rendered more efficient through effective reorganization, automation, and personnel training. Pakistan's stock market with capitalisation of US\$ 8 billion and daily trading volume of US\$ 100-200 million has considerable potential. The market appears to have the basic ingredients, which can be nurtured and developed so that it becomes an effective instrument for mobilising and allocating risk capital. The securities market in Pakistan clearly needs greater depth. My present thinking suggests a four-pronged game plan for the near future i.e. over a 2 - 3 year horizon. This plan encompasses strengthening the institutional capability of the Commission, developing enhanced underwriting and distribution capacity, expanding the investor base, and increasing market depth by introducing new financial products. This plan would be accompanied by other changes in the regulatory system, strengthening of audit practices and adoption of global accounting standards.

(Khalid A. Mirza)

September 29, 2000

ii. ORGANIZATION OF SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

The establishment of Securities and Exchange Commission of Pakistan with effect from 1st January, 1999 is an important milestone in the evolution of the regulatory framework for the capital market in Pakistan. Since 1981, the capital market and the corporate sector were being regulated by the Corporate Law Authority, a department of the Ministry of Finance which had been set up to administer all the corporate laws in the country. The status of the Authority as a department of the Government circumscribed its effectiveness as it lacked administrative and financial autonomy to recruit professionally qualified staff and to develop necessary infrastructures. The rapid expansion of the market during early 1990s highlighted the need for establishment of an independent regulatory body with full operational and administrative autonomy. The process of restructuring the Authority into an autonomous Commission was started in 1997 under the Capital Market Development Programme of Asian Development Bank. A number of models of regulatory bodies, set up in the recent past in other countries of the region, were studied and after careful consideration, it was decided that:

- the proposed Commission should be named Securities and Exchange Commission of Pakistan and it should enjoy full operational, administrative and financial autonomy;
- the regulatory scope of the Commission should cover securities market, administration of company law and regulation of some non-banking financial companies, in view of the strong inter-linkages among the three areas; and
- the Commission should associate outside professionals and key policy makers with its policy formulation process.

The policy decisions regarding the constitution and the structure of the Commission were incorporated in the Securities and Exchange Commission of Pakistan Act, 1997 (the Act), which was passed by Parliament and promulgated in December 1997.

On 1st January, 1999. Mr. Shamim Ahmad Khan, the then Chairman, Corporate Law Authority, was appointed as the first chairman of the Commission. Four commissioners were also appointed out of whom, the following three joined the Commission:

- Mr. Abdul Rehman Qureshi
- Mr. Tariq Iqbal Khan
- Mr. Zafar-ul-Haq Hijazi

Subsequent to the resignation of Mr. Shamim Ahmad Khan in January 2000, Mr. Khalid A. Mirza (a senior official of the International Finance Corporation (IFC), posted as Chief of IFC's Regional Mission in Bangkok, Thailand) was appointed as Chairman of the Commission. He took over on 31st March, 2000.

Although the Commission became operational on 1st January, 1999, it could not enjoy financial autonomy during the remaining part of the financial year. Till 30th June, 1999, the Commission could only use the budgetary allocations which had been made for the Authority in the budget of the Federal Government for the fiscal year 1998-99.

Transformation of a government department into an autonomous body established under a statute required considerable groundwork. During the calendar year 1999, foundations of the new regulatory body were laid through a number of measures:

- A Corporate Plan was prepared with the assistance of ADB consultants which covered organisational structure, reporting relationships and functional profiles; information system strategy; plans to up-grade facilities like premises, equipment etc; skills development and financial plans.
- Based on the Corporate Plan, the work of the Commission was distributed among its six Divisions, powers of the Commission were delegated to the individual Commissioners and Appellate Benches as envisaged in the Act were constituted.
- A Service Manual determining the terms and conditions of the Commission's employees was prepared.
- Accounting and financial procedures were prepared and put into operation.
- Steps were taken to generate public awareness about the establishment of the Commission through seminars, the media, and circulars. A website (<http://www.secp.gov.pk>) was established that disseminates information regarding all important developments and policy decisions of the Commission.
- New office premises at Islamabad (NIC Building, Blue Area) and additional space for the regional office at Karachi (5th Floor of SLIC Building No.2, Wallace Road) were arranged.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN ACT, 1997

The Commission is governed by the Securities and Exchange Commission of Pakistan Act, 1997 which encompasses the constitution of the Commission, appointment and terms and conditions of the Chairman and Commissioners, functions and powers of the Commission and financial arrangements. The main provisions of the Act are given below:

SUMMARY OF MAIN PROVISIONS OF SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN ACT, 1997

- The Commission would be a body corporate and a legal person.
- The Commission would comprise of such number of commissioners including a chairman as may be fixed by the Federal Government but minimum and maximum number of commissioners shall be five and seven respectively. The tenure of the chairman will be three years while that of the commissioners shall be two or three years to be determined through random ballot to facilitate continuity of the Commission. The incumbents would be eligible for a second term.
- The Commission would administer the following laws:
 - The Securities and Exchange Ordinance, 1969;
 - The Companies Ordinance, 1984;
 - The Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980;
 - The Insurance Act, 1938 (since replaced by the Insurance Ordinance, 2000);
 - The Companies Legal Advisers Act, 1974; and
 - The Securities and Exchange Commission of Pakistan Act, 1997.

All the powers of the Authority and the Federal Government (except power for rules making) under the above laws are exercised by the Commission.

- The Government can assign administration of any other law to the Commission.
- Terms and conditions of the employees shall be determined by the Commission with the approval of the Policy Board.

- The main functions of the Commission in respect of securities market are:
 - regulation of securities market;
 - regulation and supervision of the activities of capital market institutions like central depository and stock exchanges clearing houses;
 - registering and regulating work of stock brokers, sub-brokers, trustees, bankers to the issue, registrars to the issue, under-writers, portfolio managers and investment advisers;
 - regulation of collective investment schemes (Unit Trusts and Mutual Funds); and
 - regulating substantial acquisition of shares and mergers and takeover of companies.

- A Securities and Exchange Policy Board shall be constituted, which shall consist of seven members out of whom three would be from private sector while four would be ex-officio namely; Secretary, Finance Division, Secretary, Law and Justice Division, Chairman of the Commission and a Deputy Governor of the State Bank. The tenure of the private sector members of the Policy Board shall be four years. The main functions of the Board are:
 - to advise the Federal Government on all matters relating to securities market, regulation of companies and corporate sector and protection of interest of investors, measures to encourage self regulation by the stock exchanges and non bank financial institutions and measures to promote securities market;
 - to approve the budget of the Commission; and
 - to oversee the performance of the Commission to the extent that purposes of the Act are achieved;

- The Commission shall administer and control a 'Fund' consisting of all sums received from Federal Government, grants and sums raised by the Commission and fees, penalties and other charges levied by the Commission.

- The 'Fund' shall be expended for the purposes of meeting lawful expenditure of the Commission.

- The Commission is required to prepare an Annual Report on the activities of the Commission to be released to the public and to be submitted to the Federal Government and the Parliament.

- ❑ The accounts of the Commission are to be audited by two auditors; one to be appointed by the Federal Government and the other by the Commission.
- ❑ The Commission has been vested with sufficient powers to carry out investigation and inspection and call for any information relevant to its scope of work.
- ❑ An Appellate Bench is to be constituted by the Commission to hear appeals in respect of an order passed by a Commissioner.

The decision of the Government to assign regulation of the insurance industry to the Commission was taken after its establishment.

ADMINISTRATIVE STRUCTURE OF THE COMMISSION

In accordance with the approved Corporate Plan, the Commission has been organized into the following six Divisions:-

- ❑ Securities Division;
- ❑ Enforcement Division;
- ❑ Specialized Companies Division;
- ❑ Company Law Administration Division;
- ❑ Insurance Division; and
- ❑ Support Services Division

FUNCTIONAL PROFILE OF THE DIVISIONS

- ❑ Securities Division is responsible for all activities related to the securities market functions including licensing and coordination, regulation of secondary market, public offerings and market surveillance and of market intermediaries.
- ❑ Enforcement and Monitoring Division is responsible for review of accounts of listed companies, investigation and compliance of relevant laws and regulations by the management and prosecution (except in relation to specialized companies, including insurance companies).
- ❑ Specialized Companies Division is responsible for regulation of Mutual Funds, Modaraba companies, Leasing and other specialized companies (except insurance companies). Its functions include licensing, regulatory compliance and enforcement of all applicable laws

- Company Law Administration Division is charged with the responsibility of incorporating all companies and enforcing Companies Ordinance and other statutes and regulations in all (listed/unlisted/private) companies. The Division is also responsible for supervision of the field offices in various cities working as company registration offices.
- Insurance Division is responsible for regulating the insurance sector. It would exercise powers of the Commission under the law, and will administer the law of insurance, covering licensing and supervision of insurers and other regulated entities under that law.
- Support Services Division is responsible for provision of efficient support services to the entire Commission. It would also attend to legal matters pertaining to various statutes, managing the funds and maintaining accounts, development and administration of human resources and introducing automation systems through information technology. It is envisaged that the regional offices shall have their own dedicated support services units, which would implement the policies and procedures prescribed by the Support Services Division at the head office.

Each of the above six Divisions have been divided into Wings for administrative purposes, which are mentioned below:

- **Securities Division**
 - Licensing and Coordination;
 - Secondary Market Regulation;
 - Public Offering; and
 - Surveillance
- **Enforcement Division**
 - Accounts
 - Investigation
 - Compliance and Prosecution
- **Specialized Companies Division**
 - Modaraba Companies and Modarabas
 - Leasing Companies
 - All Other Specialized Companies and Mutual Funds.
- **Company Law Administration Division**
 - Coordination and Liaisoning
 - Regulation and Compliance
 - Enforcement, Investigation and Prosecution
 - Licensing, Approvals and Appeals

- **Insurance Division**
 - Actuarial Services
 - Life Insurance Prudential Supervision
 - Non-life Insurance Prudential Supervision
 - Market Conduct Supervision
 - Enforcement and Prosecution

- **Support Services Division**
 - Finance and Accounts
 - Administration
 - Legal
 - Human Resource
 - Information Technology.

The Commission is a collegiate body having collective responsibility. Chairman of the Commission is its Chief Executive Officer and is responsible for the working of the whole Commission while the commissioners would assist him in over-all supervision. Each Executive Director while heading a Division, or one or more Wings of a Division, would be directly responsible to the Commission. The Wings have further been divided function-wise into Sections to be headed by a Joint Director accountable to the respective Director.

SECURITIES AND EXCHANGE POLICY BOARD

While ensuring full autonomy of the Commission, the Act provides for establishment of a Securities and Exchange Policy Board (the Policy Board). The main objective of the Policy Board is to provide guidance to the Commission in all matters relating to its functions and to formulate policies in consultation with the Commission. The Policy Board is also responsible for advising the Government on any matter falling within the purview of the Act and other Corporate Laws; and also to express its opinion on policy matters referred to by the Government or the Commission.

The Act provides that the Federal Government shall appoint a Policy Board consisting of seven members out of whom four would be ex-officio while three would represent the private sector. The ex-officio members are: (i) Secretary, Finance Division; (ii) Secretary, Law and Justice Division; (iii) Chairman of the Commission; and (iv) a Deputy Governor of the State Bank of Pakistan. Following a recent amendment in the Act, the size of the Policy Board has been

increased to nine members, including the Secretary, Commerce Division, as another ex-officio member. The term of an ex-officio member is the period of incumbency of his/her official position whereas the term of a private sector member is for a fixed period of four years. The first Policy Board was constituted as under:

1. Mr. M. Khalil Mian (Chairman)
2. Mr. Bashir Ahmed
3. Mr. Khurshid Marker
4. *Ex-officio* Secretary, Finance Division;
5. *Ex-officio* Secretary, Law Division;
6. *Ex-officio* Chairman of the Commission; and
7. Mr. Mukhtar Nabi Qureshi, Deputy Governor of the State Bank of Pakistan.

On the resignation of Mr. M. Khalil Mian, the Government appointed Mr. Khalid A. Mirza, Chairman of the Commission as Chairman of the Policy Board on 29th June 2000.

FINANCIAL ARRANGEMENTS

Since Commission is financially autonomous, a Fund has been established for meeting the financial requirements of the Commission. The Fund is administered and controlled by the Commission and consists of the following:-

- such sums as the Federal Government may grant from time to time;
- grants of money and sums borrowed or raised by the Commission for the purposes of meeting any of its obligations or discharging any of its duties; and
- taxes, fees, penalties or other charges levied under this Act, the Ordinance, the Securities and Exchange Ordinance, 1969 (XVII of 1969), the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), Law of Insurance and under any other law that is for the time being administered by the Commission.

All expenditure of the Commission, including the following items, is charged to the Fund:-

- Any expenditure lawfully incurred by the Commission, including the remuneration of Commissioners and employees, including provident fund contributions,

superannuating allowances or gratuities and legal fees and cost and other fees and costs.

- ❑ Any other expenses, costs or expenditure properly incurred or accepted by the Commission in the performance of its functions or the exercise of its powers under this Act.
- ❑ Purchasing or hiring equipment, machinery and any other materials, acquiring land and erecting buildings, and carrying out any other work and undertakings in the performance of its functions or the exercise of its powers under this Act.
- ❑ Repaying any financial accommodation received or moneys borrowed under this Act and the profit, return, mark-up or interest due thereon (howsoever called).
- ❑ Generally, any expenses for carrying into effect the provisions of this Act.

The Commission is required to prepare and submit its budget to the Policy Board within ninety days of its establishment and thereafter not later than thirty days before the expiry of each financial year. The Commission is required to keep proper accounts and at the end of each financial year prepare a statement of accounts which shall include a balance sheet and an account of income and expenditure. The Commission is also required to get its accounts audited by auditors appointed with the approval of the Federal Government. The Federal Government may if it deems fit, also require the accounts of the Commission for any financial year audited by the Auditor General of Pakistan. The Policy Board is required to send, within one hundred and twenty days after the end of each financial year, together with the annual report of the Commission, a copy of the statement of accounts of the Commission certified by the auditors and a copy of the auditors' report to the Federal Government which shall cause them to be published in the official Gazette and submit to Parliament within two months of their receipt. The accounts of the Commission are being jointly audited by two firms of Chartered Accountants and would be submitted to the Government within the stipulated period.

iii. DEVELOPMENTS IN LEGAL FRAMEWORK

During the period under review, a number of significant amendments in corporate laws were made with the objective of not only updating these laws to keep pace with developments in the corporate sector but also introducing new financial instruments. The amendments followed exhaustive work and consultations with all stakeholders, professionals in the relevant areas, legal experts and the general public. Amendments in the Companies Ordinance, 1984 were made through the Finance Act, 1999 as well as through an amending legislation, i.e., Companies (Amendments) Act, 1999. The main amendments made during the period under review and some draft rules prepared for public consultation are discussed below:

COMPANIES ORDINANCE, 1984

□ **Section 14:**

The restriction on partnership firms to convert themselves into incorporated entities, in case the number of their partners exceeds twenty, has been removed in the case of lawyers and accountants or any other profession, which does not allow practice by a body corporate. The amendment enables establishment of large firms of professionals and merger of such firms.

□ **Section 53:**

Companies have been allowed to publish abridged form of prospectus instead of full text. The amendment has helped in reducing the cost of public offerings both for equity issues and fixed income securities.

□ **Section 86:**

Provision has been made to allow the allocation of a certain percentage of share capital for the employees of companies under the “Employees Stock Option Scheme”. This enables employee participation in the affairs of companies.

□ **Section 90:**

Previously, company law allowed only one kind of share capital which was ordinary share capital. Amendment has been made so as to enable a company to issue different kinds and classes of share capital as provided in their Memorandum and Articles. The amendment requires the Commission to prescribe varying rights of shareholders through rules.

□ **Sections 95 and 95-A:**

Listed companies have been allowed to purchase their own shares subject to certain restrictions and conditions. The amendment was made as a measure to improve the condition of the stock market and to stabilize share prices. An enabling provision has been made under section 95 and a new section 95-A has been inserted to allow listed companies to buy-back their own shares. These new legal provisions while allowing listed companies to re-purchase their shares, provide adequate safeguards against any possibility of manipulation. The decision by the company in this respect would require shareholder approval through special resolution and the purchase shall have to be made only in cash out of distributable profits.

□ **Section 197-A:**

Companies have been prohibited to distribute gifts to their members on the occasion of annual general meetings. The amendment was made to discourage the malpractice of distribution of gifts and to encourage meaningful discussions in the general meetings.

□ **Section 236:**

Directors' report has been made more elaborate and transparent, by prescribing disclosure requirements. The amendment requires the directors of the public company to make comprehensive disclosure about the affairs of the company including analysis of losses, if any, sustained by the company.

□ **Section 245:**

The penalty in the form of imprisonment in the case of any default in circulation of half yearly accounts, has been changed to a penalty in the form of fine so as to bring the penal provisions within the scope of the Commission.

□ **Section 254:**

Previously, there was no qualification prescribed for auditors of private companies. Now, private companies that have paid up capital of Rs. 3 million or more will be required to have their annual accounts audited by a chartered accountant.

**MODARABA COMPANIES AND MODARABA
(FLOATATION AND CONTROL) ORDINANCE, 1980**

□ **Section 2:**

Consequent upon the establishment of the Securities and Exchange Commission of Pakistan, the term "Commission" has been inserted and defined.

□ **Sections 19, 20 and 22:**

In line with the provisions of the Act, the role of the Federal Government has been assigned to the Commission.

□ **Section 32:**

Provision has been made to grant the right of appeal to aggrieved parties against the orders of the Registrar Modaraba.

**THE SECURITIES AND EXCHANGE
COMMISSION OF PAKISTAN ACT, 1997**

□ **Section 20(4):**

In section 20, which relates to the powers and functions of the Commission, the role of the Commission has been specified with respect to matters falling under the Securities and Exchange Ordinance, 1969 and the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980.

□ **Section 20(7):**

Specific powers have been given to the Commission for obtaining any information/document from companies, in the interest of the investors.

□ **Section 23:**

Sources of the Fund of the Commission have been specified so as to remove any ambiguity in existing provisions.

NEW RULES FRAMED

In addition to amendments in laws, a number of new rules have been framed during this period to facilitate the administration of relevant laws. These are:

□ **Amendments in Investment Companies and Investment Advisers Rules, 1971**
(SRO. 29(9)/99 dated 14.1.1999)

The amendments made through above notification include –

- raising the minimum paid up capital of investment companies from twenty million to one hundred million rupees;

- minimum paid up capital of investment advisor was prescribed as Rs. 20 million;
- mutual funds were permitted to invest in unlisted securities (10%) and fixed income securities (20%);
- to enable investment advisors to manage more than one mutual fund, requirements of 10% investment in each mutual fund has been relaxed; and
- time frame for circulation of periodical reports to shareholders and a condition for minimum paid up capital of twenty million rupees for an investment adviser has been prescribed.

Disclosure requirements as per Second Schedule to the above Rules have also been enhanced.

□ **The Companies (Rehabilitation of Sick Industrial Units) Rules, 2000**
(SRO. 897(9)/99 dated 03.8.1999)

These rules have been prescribed under section 296 of the Companies Ordinance, 1984 which pertains to rehabilitation of companies owning sick industrial units. The rules provide for the constitution of a Task Force to be entrusted the responsibility of declaring a company as “sick” and to prepare and implement a rehabilitation plan under the supervision of the Commission.

□ **The Companies (Buy-back of Shares) Rules, 1999**
(SRO 1337 (9)/99 dated 14.12.1999)

These rules prescribed under section 95A of Companies Ordinance, 1984, provide for conditions under which listed companies may buy back their shares and the procedure for purchase. The return to be filed with the Registrar of Companies has also been prescribed under these rules.

□ **The Companies (Asset Backed Securitization) Rules, 1999**
(SRO 1338(9)/99 dated 14.12.1999)

These rules have been prescribed under section 506 of Companies Ordinance, 1984 read with section 43 of the Act. The rules introduce and provide for "securitization" which would help companies in raising funds through issue of asset backed debt

securities. The rules stipulate eligibility criteria for registration of special purpose vehicles (SPVs), their mode of registration and conditions for their operation.

□ **Draft Leasing Companies (Establishment and Regulation) Rules, 2000**
(SRO. 70(9)/2000 dated 17.2.2000)

The Commission notified for public opinion new rules to be called 'Leasing Companies (Establishment and Regulation) Rules, 2000' in substitution of the Leasing Companies (Establishment and Regulation) Rules, 1996. Prudential Regulations for Leasing Companies have been incorporated in the new rules. The framing of these new rules was necessitated by the transfer of regulatory control over leasing companies from the State Bank of Pakistan (SBP) to this Commission.

□ **Draft Companies' Share Capital (Variation in Rights and Privileges) Rules, 2000**
(SRO. 90(9)/2000 dated 24.2.2000)

These draft rules have been notified under section 90 of the Companies Ordinance, 1984 for eliciting public opinion. The rules propose to prescribe different voting rights and privileges of shareholders under various kinds of share capital and also the conditions for the issue of shares carrying different voting rights like entitlement of dividend, right shares or bonus shares.

□ **Amendment in the Asset Management Companies Rules, 1995**
(SRO. 23(9)/2000 dated 27.4.2000)

Following amendments were made to facilitate registration of existing asset management companies:

- the requirement to give an undertaking to invest or arrange investment of Rs. 250 million for a minimum period of two years can be dispensed with by the Commission in the case of existing asset management companies.
- prescribed limits of exposure to one sector or one company can be relaxed in the case of existing schemes.
- restriction on investment in companies in which directors or officers of the management company have invested a minimum of 5% in individual capacity

or 10% collectively can be relaxed by the Commission in the case of existing schemes.

□ **Draft Public Companies (Employees Stock Option Scheme) Rules, 2000**

The above draft rules have been framed and notified for eliciting public opinion. The proposed rules provide for the operation of employees stock option schemes introduced under section 86(1) of the Companies Ordinance, 1984. These rules would enable employees to become shareholders of companies employing them.

□ **Draft Listed Companies (Prohibition of Insider Trading) Regulations, 2000**

The above draft regulations have been framed under section 40 of the Act, and published in newspapers for eliciting public opinion. The proposed regulations provide for prohibition of insider trading in the securities of listed companies.

□ **Draft Stock Exchange Members' (Inspection of Books and Records) Regulations, 2000**

The draft regulations have been framed under section 40 of the Act, and published in newspapers for eliciting public opinion. The proposed regulations prescribe the nature of records to be maintained by members of stock exchanges and if so required, made available for inspection by a person authorized by the Commission.

□ **Draft Members, Agents and Traders (Eligibility Standards) Regulations, 2000**

The above draft regulations have been framed under section 40 of the Act, and published in the newspapers for eliciting public opinion. The proposed regulations provide for eligibility standards for members, agents and traders in the stock exchanges and the securities market.

- **Prudential Regulations for Modaraba Companies and Modarabas**
(Circular No. 5/2000 dated 20th April, 2000)

Consequent upon the transfer of regulatory control over modaraba companies and modarabas from the State Bank to the Commission, the Prudential Regulations for Modarabas as originally prescribed by the State Bank were adopted by the Commission with appropriate changes, in the form of additional conditions for the authorization of floatation of modarabas.

- **Draft Listed Companies (Substantial Acquisition of Shares and Takeovers) Regulations, 2000**

With a view to providing fair and equal treatment to all investors as well as ensuring a transparent and efficient system for substantial acquisition of shares and takeovers of listed companies, draft of a new law to be known as 'Listed Companies (Substantial Acquisition of Shares and Takeovers) Regulations, 2000' was prepared by the Commission in consultation with the stock exchanges, professional bodies, portfolio managers and legal experts. The draft ordinance contains detailed provisions regarding disclosure of shareholding in a listed company and conditions and mode for substantial acquisition of shares in a listed company.

iv. REGULATION OF SECURITIES MARKET

Regulation of the Securities Market is the core function of the Commission. The Securities Division (SD) of the Commission monitors and regulates the securities market through powers vested in the Commission under the Securities and Exchange Ordinance of 1969 and the rules framed thereunder, as well as under the Act. SD regulates both the primary and secondary markets as well as market intermediaries. Since stock exchanges are working as self-regulatory organizations, SD essentially performs functions of an offsite regulator. It also takes initiatives for development of securities market. Regulatory functions include monitoring the working of the stock exchanges particularly with regard to the obligations of the brokers towards investors and ensuring smooth functioning of the clearing house and settlement operations. As regards the primary market, it clears offering documents both for equity and debt issues within the framework of the Companies Ordinance 1984. On behalf of the Commission, SD exercises surveillance of the market, initiates enquiries and undertakes inspection and audit of stock exchanges and intermediaries. It also monitors the performance of Central Depository Company (CDC). Its developmental role requires SD to formulate proposals for amendment of laws governing the securities market and the introduction of new financial products and instruments.

SECURITIES MARKET IN PAKISTAN

At present, three stock exchanges are functioning in Pakistan, namely Karachi Stock Exchange (KSE), Lahore Stock Exchange (LSE) and Islamabad Stock Exchange (ISE). Some key statistics about the stock exchanges are given below:-

	<u>KSE</u>	<u>LSE</u>	<u>ISE</u>
Year of establishment	1947	1971	1989
No. of companies listed	763	618	285
Listed paid up capital (Rs. in billion)	230	208	162
Market capitalisation as on 30th June, 2000 (Rs. in billion)	405	366	298
Average daily turnover (million shares)	247	68	8
Average daily value traded (Rs. in billion)	9.5	2.4	0.1

Trading on all the three stock exchanges is fully automated. The three stock exchanges are also linked to the Central Depository System (CDS) of the CDC which has been operational since September, 1997. All major listed companies have joined the CDS. As on 30th June 2000, 329 companies had joined the CDS, representing 30% of total listed capital. About 97% of trades settled by the stock exchanges are now handled through CDS. Automation of the trading system and operationalization of CDS have enhanced the efficiency of the capital market and has made it more transparent and safer for investors.

PRIMARY MARKET

Primary Market - Equity

The period under review was not very encouraging for new issues. In view of slow economic activity, political uncertainty, high rates of return on Government saving schemes and depressed market conditions where shares of existing companies were available at grossly discounted value with dividend yield of up to 20%, it was extremely difficult for new companies to raise capital from the public. As a result, no company could offer shares for public subscription in 1999. However, in the year 2000 three companies made a public offering, details of which are given in the table below:

Rs. in Million

Name of Company	Sector	Subscription Date	Total Paid up Capital	Capital offered	Amount of Premium	Subscription Received
World Call	Transport & Communication	27.3.2000	400	100*	50	385
Dewan Farooq Motors	Auto & Allied	29.5.2000	734	185	-	226
Al-Meezan Investment Bank	Investment Co. & Bank	22.6.2000	901	180**	50	36
Total			2035	465		
* Offered at premium of Rs.5 per Share.						
** Offered at premium of Rs.1.50 per share.						

It would be observed that only 3 companies could offer their shares to general public over a period of 18 months, of which two were over subscribed and one namely, Al-Meezan Investment Bank was heavily under subscribed.

Primary Market - Fixed Income Securities

The corporate debt market in Pakistan is in its infancy. There are several reasons for the slow development of the debt market. Easy availability of funds from banks and development finance institutions (DFIs) to the industrial and commercial sector, encouraged companies to meet their short term and long term capital requirements through the banking sector. The other major impediments towards the development of fixed income securities were high rate of return on national saving schemes and the procedure for offering of securities to general public which was cumbersome, costly and time consuming. However, during the period under review, important policy changes promoted fixed income securities market. Lowering of return on national saving schemes, limited availability of long term funds with DFIs, and simplification of procedure for issue of fixed income securities in the recent past have enabled companies to raise funds from the stock market through issuance of Term Finance Certificates (TFCs), redeemable capital instrument provided under the Companies Ordinance, 1984. During the period under review, six companies issued TFCs through public floatation as per details given in the Table.

Rs. in million

Name of Issuing Company	Subscription Date	Total Offer	Institutional Investor	General Public	Subscription Received
Saudi Pak Leasing	28 Jan. 1999	250	-	250	284.00
Dewan Salman Fibre	24 - 26 May, 1999	864*	500	200	364.00
NDLC	25 Nov. - 01Dec.1999	330	230	100	500.22
PIL CORP.	21 Dec. 1999	250	175	75	351.49
Sigma Leasing	17 - 18 Jan. 2000	100	80	20	146.00
Paramount Leasing	27 - 28 June, 2000	300	250	50	165.38
Total				695	

* Green show option was exercised

The government is also keen that the corporate sector should not rely exclusively on banks or DFIs for meeting their financing needs. In order to encourage the corporate sector to meet their financing needs from the capital market, the Government has allowed tax exemption to individuals and companies on their investment in listed companies. The Commission also constituted a committee under the chairmanship of Mr. M. Khalil Mian, Chairman, Pakistan Credit Rating Agency (PACRA), in 1999 to review the policy framework for TFCs. Based on the recommendations of the Committee, a number of important steps have been taken for the promotion of TFCs market which include permission to companies to issue abridged prospectus, reduction in listing charges and other related charges by the exchanges and the CDC. All these steps should promote the development of a vibrant fixed income securities market in Pakistan.

STOCK MARKET REVIEW

(January 1999 – June 2000)

During the period under review, the market showed considerable volatility. The year started on a bearish note as the KSE-100 Index drifted downward from 952 on 2nd January, 1999 to as low as 852 on 8th February, 1999 and remained between 861 to 938 during the rest of February 1999. The market started picking up in the month of March 1999, owing to the news of a possible resolution of the Power Projects' issue and reduction in interest rates. As a result, the KSE-100 index improved to 1,057 by end of March 1999. The market became bullish in April/May, 1999 with the signing of Stand Still Agreement with Hubco and unification of the exchange rate. The KSE-100 Index moved sharply up from 993 on 12th April, 1999 to 1,417 on 24th May, 1999. The impressive growth of 43% during April – May 1999 can be attributed to reduction in interest rates, stability in rupee – dollar parity, de-dollarisation of the economy and optimism about resolution of the Hubco issue. However, the bullish tempo of the market was short lived as the market was soon caught in the bear trap due to flaring up of situation in Kashmir. As a result, the index dropped from 1417 on 24th May, 1999 to a low of 1027 on 23rd June, 1999 and was 1055 by 30th June, 1999.

During the period, July to September 1999, the market moved both ways depending on political developments. It recovered from 1,066 on 1st July, 1999 to 1,292 on 20th August, 1999. It again dropped to 1,147 on 7th September, 1999 but improved to 1,210 on September 27th 1999 before closing at 1,199 on 30th September 1999. The October – December, 1999 period was eventful for the market. The market initially reacted negatively to the removal of PML Government on 12th October, 1999 and as a result, the index dropped from 1,257 on 12th October 1999 to 1,164 on 14th October 1999. It remained below 1,200 for the rest of October. However, the market recovered in November, and consolidated at 1,247 by 30th November 1999. In the month of December, the market became bullish as KSE-100 index moved sharply up from 1,255 on 1st December 1999 to 1,441 on 18th December 1999 and was firm at 1,409 on 30th December 1999.

The bullish tempo of the market continued in the new year. The reports of bumper wheat crop, de-regulation of gas sector companies and setting up of Natural Gas Deregulatory Authority, further reduction in interest rates by 2%, good half yearly results of PTCL, and more importantly,

permission to scheduled banks to remit sale proceeds to foreign portfolio investors without the approval of State Bank of Pakistan were major reasons for the upward surge in the market. The index, which was 1,457 at the beginning of January 2000 moved consistently up and rose to 1,773 by January end. The month of February was an extension of bullish tempo as the KSE-100 index for the first time after many years breached the 1,800 level, 1,900 level and 2,000 level. The index, which was 1,457 at the beginning of year 2000, reached as high as 2,013 on 23 February 2000. Thus in less than two months, the market jumped by 38%. In the next few days, profit taking brought some correction in the market, which arrested the rising trend to some extent. The index was 1,931 by the end of February 2000. In the month of March 2000, encouraged by good corporate announcements, expectations of abnormally high profits of the textile sector and aggressive buying by some big operators fuelled the bullish tempo again. As a result the KSE-100, which was 1,874 on 1st March 2000 sharply escalated to attain its highest level at 2,054 on 22nd March 2000. However, high prices attracted heavy profit selling and the market lost 123 points in just two days pushing down the index at 1,931. Thereafter the market again picked up to close at 2000 on 31st March 2000. The highest turnover in a single day of 536 million shares was recorded on 21st March 2000.

In April 2000, the market moved both ways with bulls trying to keep the market up. While doing so, they targeted in particular a few selected scripts and pushed their share prices upward. They were eager to keep the market tempo rising and at times they were successful in doing so. The bears anticipating that a bullish trend on borrowed capital cannot be sustained for a longer period continued to put pressure on the market. The jobbers and shrewed operators took full advantage of the tug of war between bull and bears and resorted to heavy buying/selling to take advantage of the situation. The index, which was 1998 on 3rd April 2000, dropped to 1928 on 10th April 2000. It again jumped to 2034 on 19th April 2000 and later on managed to close at 1901 on 28th April 2000 indicating beginning of bearishness in the market after a long bull run.

Bearish signs were obvious right from the beginning of May 2000. There were reports that some big operators who had built huge positions on borrowed capital in certain scripts were finding it difficult to raise funds from the market. The cost of funds for financing shares (*Badla* Rate) which was as low as 12% to 14% p.a. for most part of year 2000 went as high as 40% to 50% p.a. for certain scripts. Owing to nervousness and high *Badla* rate, the KSE-100 Index which was 1921 on 1st May, 2000 dropped sharply and went to a low of 1552 as on 18th May, 2000. By 26th May, 2000 there were clear indications that all was not well at the major

exchanges and the long boom period was heading towards a bust - there were reports of dis-honouring of commitments by one broker of KSE and few brokers of the LSE. On 1st June 2000, the KSE declared one of its brokers as a defaulter while the LSE suspended a few of its members who failed to honour their commitments to the Clearing House. The market was hit by one of the worst crisis, which adversely affected market sentiment. As a result, the Index, which was 1921 on 1st May, 2000 sharply dropped to 1399 on 9th June, 2000 i.e. a fall of 27%. Even good corporate announcements along with reports of abnormally high profits by the dormant textile sector and further reduction in the interest rates/national savings rates failed to reverse the negative trend. The market remained depressed for the first half of June 2000 when KSE-100 index remained below 1500 but by the end of June 2000 the market was beginning to consolidate above 1500 level and was 1521 by 30th June, 2000.

The period under review was characterised by high turnover. The average daily turnover which was 77 million in 1998, moved sharply up to 128 million in 1999 and further to 247 million for 2000 (upto 30th June). Similarly the average daily value traded also rose from Rs.1.8 billion in 1998 to Rs.4.4 billion in 1999 and further to Rs.9.5 billion during January – June 2000.

CAPITAL MARKET POLICY REFORMS

A number of steps were taken towards the development of the capital market during the period under review. These included:

- ❑ Based on the recommendations of the Committee appointed by the Commission on securitization, Companies (Asset Backed Securitization) Rules, 1999 were notified on 14th December 1999. The rules provide for eligibility of registration of special purpose vehicle and parameters of securitization of assets.
- ❑ With effect from 30th June 1999, the restriction on companies to issue different kinds of securities was removed and now companies can issue shares of different kinds and classes. Companies Share Capital (Variation in Right and Privileges) Rules 2000 were issued for public opinion.
- ❑ The Committee constituted by the Commission on Substantial Acquisition and Take Over Law finalised its recommendations and the Commission, after making necessary amendments, submitted the final draft to the Government.
- ❑ The Commission has framed draft regulations with respect to Employees Stock Option Schemes, which will soon be released for public opinion.

MEASURES TO STRENGTHEN RISK MANAGEMENT

Risk management and market surveillance system of the KSE and LSE were tested during the crisis of May 2000. It was observed that there were several weaknesses and gaps in the existing system which need to be improved significantly in order to restore investor confidence.

Soon after the crisis, the Commission took up the question of strengthening risk management with the managements of all three stock exchanges and the following decisions were taken:

- ❑ The present exemption in exposure up to Rs.50 million available to brokers will cease effective from 1st October, 2000 and brokers will be required to deposit 5% on exposure up to Rs.50 million.
- ❑ The requirement of net capital balance for members has been increased from 0.25 million to Rs.2.50 million for exchanges having trading volume of more than 7.5 billion shares in a calendar year and to Rs.0.75 million for exchanges having trading volume of lower than 7.5 billion shares per annum. Members shall be required to file net capital balance certificates with the respective stock exchanges every quarter and with the Commission every year duly certified by a practicing Chartered Accountant. This will be implemented from 1st December, 2000.
- ❑ The definition of net capital is being redefined to make it more realistic.
- ❑ Capital adequacy of brokers has been prescribed for the first time. Stock exchange members will only be allowed to trade up to 25 times their net capital balance. This will be effective from 1st December, 2000.
- ❑ The existing system of 5 days trading cycle with settlement on the 10th day puts the clearing house of the exchange at high risk. In order to minimise risk, stock exchanges have been asked to switch over to the internationally accepted T+3 settlement system. The exchanges are also in the process of setting up the National Clearing and Settlement System. The introduction of T+3 Continuous Net settlement (CNS) facility would reduce risk substantially.
- ❑ The exchanges have also been asked to develop regulations for short selling with facilities for lending and borrowing of securities.

FUTURE ROAD MAP FOR THE DEVELOPMENT OF CAPITAL MARKET

The Commission has developed the following road map for enhancing the efficiency of Capital Market in Pakistan.

□ **Setting up of National Clearing & Settlement System (NCSS)**

With the technical assistance of ADB, the Commission is co-ordinating with the three exchanges for setting up of NCSS. The System will be based on rolling settlement on T+3 based on Continuous Net Settlement (CNS). The consultants have finalised the system design and the NCSS is expected to be operational in 2001.

□ **Standardisation of Rules & Regulation of the Exchanges**

A Task Force consisting of the officials of the Commission and the three stock exchanges has been set up to standardise the rules and regulations of the exchanges. The task force has been asked to complete the assignment by 31st December, 2000.

□ **Adoption of Code of Ethics For Members of the Stock Exchanges**

The Commission in consultation with the three stock exchanges will ensure adoption of a code of ethics for brokers.

□ **System Audit for Brokerage Houses during 2000**

The Commission intends to get system audit of at least 10 brokerage houses from KSE, LSE & ISE done during 2000.

□ **Linkage of Stock Exchange with Remote Areas**

The Commission has been emphasising upon the stock exchanges to develop infrastructure to provide access to remote areas. This would enable the public to trade outside the premises of the exchange both within the city as well as in different cities.

□ **Internet Routed Trading**

The Commission has advised all stock exchanges to develop the necessary infrastructure so as to introduce Internet routed trading in the market. The Commission is also preparing a regulatory framework for e-trading.

□ **Education of Investors**

The Commission intends to hold seminars in different cities to create public awareness regarding the capital market. It also intends to publish various brochures for the education of investors.

□ **Setting up Monitoring and Surveillance Wing**

The Commission is establishing a Monitoring and Surveillance Wing which will be manned by adequately qualified and trained professionals. The Surveillance Wing of the Commission will have terminals linked to stock exchanges to be able to effectively monitor the price movement. The Commission has also advised KSE to beef up its existing Surveillance Wing and have asked the other two stock exchanges to set up Surveillance Wings. With the setting up of an effective surveillance system both in the Commission and at the exchanges together with better coordination

between the Commission and exchanges will help monitor the behaviour of the exchanges in an effective manner.

INVESTORS' COMPLAINTS

In order to address investors' complaints in an effective manner, a special unit called Investors Complaints Cell (the Cell) was established in the office of the Chairman. Prompt and proactive role of the Cell towards resolution of investors' complaints has not only provided comfort to the investors but has also generated awareness among stock exchanges, brokers and companies to respond urgently to investor complaints. The Commission, however, feels that the arrangements in place for redressal of investor grievances need to be strengthened. The table below shows the status of complaints received and disposed of during the period under review:

STATUS OF COMPLAINTS RECEIVED AND DISPOSED OF FROM JANUARY 1999 TO JUNE 2000		
<u>Nature of Complaints</u>	<u>Received (Number)</u>	<u>Disposed of (Number)</u>
Issue of shares under section 74 of Companies Ordinance	400	391
Issue of duplicate shares under section 75 of Companies Ordinance	150	145
Verification of transfer deeds	100	96
Payment of dividend under section 251 of Companies Ordinance	225	213
Non-receipt of annual and half yearly accounts	125	125
Miscellaneous	239	227
Complaints against stock brokers	109	34
Total	1348	1231

v. ADMINISTRATION OF COMPANY LAW

Administration of Company Law is an important function of the Commission, which is being carried out by the Companies Law Administration Division (CLAD). This Division supervises and coordinates the working of all regional offices of the Commission, called Company Registration Offices (CROs), which are located at Karachi, Lahore, Peshawar, Quetta, Multan, Faisalabad and Islamabad. This is done through the Regulation of Companies at headquarters. Each officer heading a regional office exercises powers of Registrar under the Companies Ordinance, 1984. CLAD has issued standing instructions to the CROs with regard to important policies relating to administration of the Companies Ordinance. It also issues guidance as and when necessary, on important policy and operational issues. In addition to facilitating the incorporation of companies, CLAD has put in place a system to ensure that companies comply with the statutory requirements, particularly with regard to disclosure and fulfilment of obligations towards their members. The main functions of CLAD as per the Corporate Plan are summarized below:

- ❑ supervision of working of all CROs;
- ❑ effective coordination and liaising through periodical reports;
- ❑ grant of approvals in matters within the jurisdiction of the Commission and the Registrar at Headquarters;
- ❑ identifying non-compliance with the provisions of the Companies Ordinance and issuance of notices to defaulting companies;
- ❑ penal action against the managements of companies in default of compliance with the law; and
- ❑ speedy disposal of complaints from investors and the general public; and
- ❑ framing of rules/regulations and recommending amendments in the Ordinance.

MAIN CATEGORIES OF COMPANIES

The companies incorporated under the Companies Ordinance, 1984 can be classified into two main categories:

- (i) Private companies; and

- (ii) Public companies.

Companies Ordinance, 1984 also provides for following kinds of companies:

- (i) a company limited by shares;
(ii) a company limited by guarantee;
(iii) a company having unlimited liability;
(iv) companies, which are incorporated for non-profit purposes;
(v) foreign companies, which are not formally incorporated under the Companies Ordinance, 1984 being incorporated in a foreign country but engaged in business in Pakistan.

INCORPORATION OF COMPANIES

All companies are incorporated in the CROs. Each CRO has its own jurisdiction under the regulations framed by the Commission. A company may seek registration with a CRO in whose jurisdiction it proposes to maintain its registered office.

INCORPORATION OF COMPANIES DURING THE PERIOD

During the period under review, 1,628 companies were registered under the Companies Ordinance, 1984. These include 37 public companies and 1,541 private companies limited by shares, 15 companies limited by guarantee and not for profit associations and 35 foreign companies. However, no company with unlimited liability was registered during the period. The number of new companies registered during the period was equivalent to 3.87% per cent of the companies in operation as on 30th September, 2000. The authorized capital of 1,578 companies limited by shares registered during the period aggregated to Rs. 22,208.57 million. Details of companies registered during the period is given in the table below:-

PROVINCE WISE INCORPORATION OF COMPANIES					
Nature of Companies	Punjab & Islamabad	Sindh	Baluchistan	N.W.F.P.	Total
Companies Ltd. by shares					
<input type="checkbox"/> Public	24	11	-	02	37
<input type="checkbox"/> Private	895	513	15	118	1,541
Companies Ltd. by guarantee and association not for profit	12	2	01	-	15
Foreign Companies	22	12	-	1	35
Companies with unlimited liability	-	-	-	-	-
Total:	953	538	16	121	1,628

POSITION OF EXISTING COMPANIES

It can be observed from the table below that the province of Punjab with 22,116 companies has the largest concentration of companies. Next is the province of Sindh, which accounts for 16,910 companies followed by NWFP with 2,590 and the province of Baluchistan with 403. Thus out of 42,019 companies registered in Pakistan on 30th June, 2000, 52.63% companies were registered in the Punjab province, 40.24% in Sindh province, 6.16% in NWFP and 0.97% in Baluchistan province.

Total number of existing companies at the end of the report period was 42,019. Province-wise position is shown in the table below:

PROVINCE WISE POSITION OF COMPANIES IN EXISTENCE					
Nature of Companies	Punjab & Islamabad	Sindh	Baluchistan	N.W.F.P.	Total
Companies Ltd. by shares <input type="checkbox"/> Public <input type="checkbox"/> Private	1,398 20,261	1,173 15,267	56 330	125 2,442	2,752 38,300
Companies Ltd. by guarantee and association not for profit	158	202	13	14	387
Foreign Companies	294	268	03	09	574
Companies with unlimited liability	05	-	01	-	06
Total:	22,116	16,910	403	2,590	42,019

PATTERN OF AUTHORIZED CAPITAL OF NEWLY REGISTERED COMPANIES

Companies seeking incorporation under the Companies Ordinance, 1984 indicate the amount of their authorized capital as determined by them keeping in view the size of their intended business. During the period under review, the total authorized capital of newly incorporated companies was Rs. 22,209 million out of which 313 companies had authorized capital of Rs. 10 million and above. The pattern of authorized capital is shown in the table below:

AUTHORISED CAPITAL	1.1.1999 to 30.6.2000
• Below Rs.0.5 million	18
• Rs. 0.5 million and above but below Rs.1 million	28
• Rs.1 million to Rs.2.5 million.	931
• 2.5 million to Rs.5 million	142
• Rs. 5 million to Rs.10 million	146
• Rs.10 million and above	313
Total:	1,578

The companies incorporated during the period can be classified into various industrial sectors. The sectoral pattern of such companies is shown in the table below. It would appear that majority of the companies incorporated were in Textiles, Communications, Transport, Chemical & Fertilizer, Fuel and Energy and Food & Allied sectors.

SECTORAL PATTERN OF REGISTERED COMPANIES LIMITED BY SHARES	
Investment Banks	2
Modaraba Management Cos.	01
Brokerage Houses	28
Investment Advisory Cos.	03
Insurance Companies	02
Textile Spinning	17
Textile Weaving	12
Textile Composite & others	60
Synthetic Rayon	01
Woolen	07
Jute	01
Sugar & Allied	03
Tobacco	02
Fuel & Energy	32
Power Generation	07
Engineering	24
Auto & Allied	05
Electrical & Electronics	32

Transport	52
Communication	140
Chem. & Pharmaceuticals	109
Paper & Board	05
Ghee & Cooking Oil	14
Construction	40
Housing & Real Estate	02
Food & Allied	85
Leather & Tanneries	18
Miscellaneous	874
Total:-	1,578

AMALGAMATION/ MERGER OF COMPANIES

Amalgamation, merger or takeover of companies is regulated under the Companies Ordinance, 1984, the requisite power of approval being vested with the High Court. The draft schemes of amalgamation are submitted by the management of the respective companies under sections 284 and 287 and the related petitions are disposed of by the High Court duly considering the representation of the Registrar of Companies as well as the interests of minority shareholders. During the period under review, 13 cases were submitted to the Court, out of which following four were disposed of:

1. (i) Latif Weaving Mills (Pvt) Ltd.
(ii) Chenab Finishing Mills (Pvt) Ltd.
(iii) Faisal Weaving (Pvt) Ltd. into Chenab Fabrics & Processing Mills Limited
2. Al-Atta Leasing Modaraba into Crescent Modaraba
3. D.G. Khan Electric Co. Ltd. into D.G.Khan Cement Co. Ltd.
4. Sitara Spinning Mills Ltd. into Sitara Chemicals Industries Ltd.

Brief particulars of all cases submitted to the Court are given in the table below:

MERGER CASES SUBMITTED TO COURT FOR APPROVAL

<u>Names of Companies applying for merger</u>	<u>Court</u>
1. (i) Latif Weaving Mills (Pvt) Ltd. (ii) Chenab Finishing Mills (Pvt) Ltd. (iii) Faisal Weaving (Pvt) Ltd. into Chenab Fabrics & Processing Mills Limited	Lahore High Court, Lahore
2. Al-Atta Leasing Modaraba into Crescent Modaraba	Lahore High Court, Lahore
3. D.G. Khan Electric Co. Ltd. into D.G.Khan Cement Co. Ltd.	Lahore High Court, Lahore
4. (i) General Steel Pipe Industries (Pvt) Ltd. (ii) Creative Associates (Pvt) Ltd. into General Pipe & Machinery Stores (Pvt) Ltd.	Lahore High Court, Lahore
5. Javed Pervez Corporation (Pvt) Ltd. into Shalimar Steel Re-Rolling Mills (Pvt) Ltd.	Lahore High Court, Lahore
6. Steel Master (Pvt) Ltd. into New Shalimar Steel Industries (Pvt) Ltd.	Lahore High Court, Lahore
7. Rechna Soap & Chemical Industries (Pvt) Ltd. into Shaukat Soap & Ghee Industries (Pvt) Ltd.	Lahore High Court, Lahore
8. Sitara Spinning Mills Ltd. into Sitara Chemicals Industries Ltd.	Sindh High Court
9. (i) Goodwill Textile Mills Ltd. (ii) Feroze Textile Mills Ltd. into Friendship Textile Mills Ltd.	Sindh High Court
10. Best Buffalo Leather (Pvt) Ltd. into General Leather (Pvt) Ltd.	Sindh High Court
11. Nimir Resin (Pvt) Ltd. into RRP Limited	Sindh High Court
12. (i) Rice Export Corporation of Pkistan (Pvt) Ltd. (ii) Cotton Export Corporation (Pvt) Limited into Trading Corporation of Pakistan (Pvt) Ltd.	Sindh High Court
13. Allied Leather Garments (Pvt) Ltd. into Nova Leather (Pvt) Ltd.	Sindh High Court

SUPERVISION & CONTROL OVER CROs

As stated earlier, supervision and control over the CROs is exercised by the Registrar of Companies at Headquarters. Besides regular visits by the Registrar, certain periodical reports as listed below have been prescribed for effective control over the working of the CROs to ensure efficient and prompt service to the general public.

Periodical Reports received from Registrars

- ❑ Position of cases pending in various courts.
- ❑ Updating of company database.
- ❑ Incorporation of companies.
- ❑ Mortgages/Charges registered.
- ❑ Commencement of business.
- ❑ Investment of foreign nationals in companies.
- ❑ Registration of cooking oil/ghee companies.
- ❑ Companies engaged in power generation and energy business.
- ❑ Dividend declared by unlisted public companies.
- ❑ Companies having Modaraba objects.
- ❑ Companies dissolved by the order of Court.
- ❑ Return on Companies (invitation and acceptance of deposit) Rules, 1997.
- ❑ Adjudication orders passed by Registrars
- ❑ Companies dissolved under section 439
- ❑ Statistical report about incorporation of companies
- ❑ Liquidation cases pending in courts.
- ❑ Report on non-holding of AGM by listed and unlisted companies.
- ❑ List of newly incorporated companies for exchange among CROs
- ❑ Report on Employees provident fund.
- ❑ Report on disposal of backlog.
- ❑ Position of companies being wound up by the Court
- ❑ Cases of defaulting companies referred to Registrar at Headquarters
- ❑ Statement of revenue receipt.
- ❑ List of companies engaged in housing projects.

GUIDANCE AND ASSISTANCE PROVIDED TO CROs FOR THE ENFORCEMENT OF COMPANY LAW

CLAD maintains close relationship with the CROs and issues instructions and provides guidance on important policy issues and interpretation of the law. Major directives issued during the period under review are:

1. Circular No. 15/1999, dated 31.8.1999 – Instructions regarding payment of fees in the head of accounts of the Securities and Exchange Commission of Pakistan.
2. Order dated September 17, 1999 regarding Board of Investment instructions for registration of foreign companies in terms of section 451 of the Companies Ordinance, 1984.
3. Order dated September 20, 1999 on the behest of Board of Revenue, Sindh for discharging duties and performing functions ensuring affixation of proper adhesive, revenue and Court fee stamps under the Stamp Act, 1899.
4. Order dated October 30, 1999 directing that written comments to be filed in the Court on winding up petitions should be immediately prepared and submitted to Headquarters for vetting.
5. Order dated February 1, 2000 advising CROs regarding the time limit for registration of particulars of mortgages, charges, etc.
6. Order dated February 2, 2000 advising CROs to examine the annual accounts of the non-listed companies and to furnish a list of such companies that have been found to be violating the provisions of the Companies Ordinance.
7. Order dated March 11, 2000 containing instructions regarding para-wise comments to be filed in the Court.
8. Order dated May 6, 2000 conveying further instructions about incorporation of new companies as per new policy of the Commission.
9. Order dated June 2, 2000 advising CROs to examine cases of dormant companies and forward a list of such companies to Headquarters Office for necessary action.
10. Order dated June 29, 2000 regarding action to be taken in cases of non-compliance with statutory requirements.

Specific instructions have been issued to the CROs to provide prompt service to investors, promoters and managements of companies. It has now been ensured that:

- ❑ names of the companies can be allowed the same day;
- ❑ companies can be incorporated within a maximum period of three days;
- ❑ record can be made available for inspection immediately on the visit of interested parties and attested copies of documents are provided the same day; and
- ❑ registration of mortgages can be completed within one day.

Besides, counters have been opened in every CRO to provide general guidance to the visiting public. There is a visible improvement in the efficiency of CROs which is being acknowledged by the public.

WINDING UP OF COMPANIES

A company may be wound up by the members or creditors voluntarily or it can be wound up compulsorily by the High Court pursuant to petitions filed by the Registrar, the Commission, and other interested parties. Names of companies, which have no assets and liabilities and have not been in operation can be struck off the register by the Registrar under the Companies Ordinance, 1984. The number of companies which were liquidated voluntarily through the Court and those whose names have been struck off the register during the period under review are given below along with their paid up capital:

COMPANIES LIQUIDATED / DISSOLVED DURING THE PERIOD FROM 1.1.1999 TO 30.6.2000 AND THEIR PAID UP CAPITAL		
	No. of companies	Paid up Capital (Rs. in million)
Companies Liquidated Voluntarily	133	367.29
Companies Liquidated under Orders of the High Courts	16	142.38
Companies Struck off by the Registrar	40	280,083.97
Total	189	280,593.64

INVESTIGATIONS INTO AFFAIRS OF PRIVATE AND NON-LISTED COMPANIES

Section 263 of the Companies Ordinance, 1984 provides that members with interest aggregating not less than one-tenth of the total voting power in a company and in compliance with the requirements of rule 18 of the Companies (General Provisions & Forms) Rules, 1985 can make an application to the Commission for investigation of the affairs of any company. Section 265 provides that the Commission may appoint one or more competent persons as Inspectors to investigate the affairs of a company on the basis of a resolution passed in a general meeting or by order of the High Court. During the period under review, investigations were ordered in the case of eight non-listed companies.

APPROVALS AND PERMISSIONS

The Companies Ordinance, 1984 provides for approval to be accorded by the Commission and by the Registrar in various matters. A large number of applications submitted by companies were processed and approved during the period under review as given in the following table:

<u>S.No.</u>	<u>Nature of approvals/permissions sought</u>	<u>No. of cases disposed of</u>
1.	Amendment in the Memorandum and Articles of Association under section 21	282
2.	Loans to Director of public companies and other under section 195	9
3.	Approval for appointment as sole purchase and sole agents under section 206.	1
4.	Registration of new companies	1,628
5.	Availability of names under section 37	2,525
6.	Change of names under section 39	96
7.	Commencement of Business Certificates	17
8.	Registration of prospectus	6
9.	Registration of mortgage, charge, etc.	3,025
10.	Extension in period for holding of AGM by unlisted companies	67
11.	Supply of copies by Registrar	24,209
12.	For calling an overdue meetings under section 170	169
13.	Inspection of records maintained in CROs	4,290
14.	Special permission for preparation of accounts for more than twelve months under section 233.	15

vi. ENFORCEMENT OF CORPORATE LAWS

Enforcement of corporate laws in respect of listed companies is the responsibility of Enforcement Division (ED) of the Commission. The main functions of ED are examination and analysis of the accounts of all listed companies, and to maintain the required vigil in order to determine whether listed companies have met their statutory obligations particularly relating to disclosure requirements. ED focuses its attention on inter-corporate financing, non-declaration and non-payment of dividends, identification of irregularities and mal-practices in accounts. Based on the outcome of the examination of accounts, ED orders investigation into affairs of public listed companies through Inspectors; normally investigations are out-sourced. ED takes action against defaulting companies in light of reports submitted by the inspectors. ED has paid special attention to compliance of statutory obligations of companies which materially affect the interests of minority shareholders like the holding of annual general meetings within the prescribed period and circulation of accounts to the shareholders. By close compliance monitoring of listed companies (with respect to statutory requirements), ED helps in instituting improved corporate governance in addition to protecting minority interests.

During the period under review, ED has taken a number of significant measures. While carrying out its responsibilities, ED has closely coordinated with the stock exchanges, which helped to identify material irregularities in some listed companies.

EXAMINATION AND ANALYSIS OF ACCOUNTS OF LISTED COMPANIES

ED has developed a detailed standardized check-list based on the requirements of the Fourth Schedule to the Companies Ordinance, 1984 and IAS. ED also out-sourced certain assignments to Chartered Accountants. On the basis of the examination of accounts, a large number of companies were called upon to explain their position on issues like auditors' qualifications, inadequate disclosure in the directors' reports and investment in associated companies. ED also sought clarification on abnormal transactions, poor trading results and increased administrative expenses.

INVESTIGATION INTO AFFAIRS OF LISTED COMPANIES:

Out of the companies, which have been placed on the defaulters' counter by KSE due to non-payment of dividend for the last five years, ED identified 177 companies for detailed scrutiny. These companies were called upon to explain their poor operating results and some of these responded by improving their performance during the period. 76 companies out of these 177 companies paid dividend after a lapse of five years. Investigations were ordered against 15 companies under sections 263 and 265 of the Companies Ordinance on the following grounds:

- ❑ Complaints by shareholders about poor performance and mis-management;
- ❑ Concealment of material facts from investors while making public offerings and mis-statements in the prospectus;
- ❑ Inconsistency in working results;
- ❑ Deterioration in performance after listing and privatisation;
- ❑ Consistent default in payment of dividend;
- ❑ Mis-management and oppression of minority shareholders;
- ❑ Shifting of business to subsidiary companies not wholly owned by the principal company;
- ❑ Irregularities in election of directors.

As a result of the pro-active role played by ED, the number of companies, which paid dividend increased to 43% of total listed companies (in 1999) as against 35% in the preceding year. A large number of companies also moved out of the defaulters' counter of KSE because of their payment of dividend. The sector-wise position is reflected in the table given below:

S.No.	Sector	Total Companies	DIVIDEND PAID	
			1998	1999
1.	Mutual Fund	39	22	19
2.	Modarabas	47	13	26
3.	Leasing companies	32	20	20
4.	Inv./Sec.Cos/Banks	39	15	20
5.	Insurance	39	16	17
6.	Textile Spinning	146	34	51
7.	Textile Weaving	26	7	9
8.	Textile Composite	54	16	17
9.	Woollen	8	1	2
10.	Synthetic & Rayon	26	9	12
11.	Jute	8	3	3
12.	Sugar & Allied Ind.	38	8	21
13.	Cement	20	1	4
14.	Tobacco	6	2	2
15.	Fuel & Energy	28	20	20
16.	Engineering	16	5	4
17.	Auto & Allied Engg.	25	10	11
18.	Cables & Elect.Goods	15	5	4
19.	Transport & Comm.	7	2	2
20.	Chemical & Pharm.	39	23	23
21.	Paper & Boards	15	8	8
22.	Vanaspati & Allied	19	1	0
23.	Construction	4	0	0
24.	Leather & Tanneries	8	4	6
25.	Food & Allied Ind.	22	12	13
26.	Glass & Ceramics	10	2	4
27.	Miscellaneous	29	9	12
	Total :	765	268	330

DIRECTIVES ISSUED TO LISTED COMPANIES

ED issued directives to 11 listed companies whose accounts indicated irregularities and malafide transactions during the period under review, and directed them to undo certain irregularities in their transactions, which had adversely affected interests of minority shareholders. The kind of transactions which were required to be undone are:-

- ❑ imprudent purchase of assets from associated companies causing financial loss to the company.
- ❑ irregular expenditure on non-executive chairman affecting the profits of the company.
- ❑ imprudent sale of assets causing huge loss to the company;
- ❑ unauthorised expenditure in terms of memorandum of association of company; and

- imprudent and irregular investment in associated companies causing huge losses to the companies.

ADOPTION OF INTERNATIONAL ACCOUNTING STANDARDS

ED has been promoting the adoption of IAS in order to improve the level of financial reporting. On the basis of recommendations received from the ICAP, the Commission, during the period under review, adopted and notified IAS No. 30, 34, 35, 37 and 38 during the period. The introduction of new IAS has helped increase the extent of disclosure by listed companies. These standards are described below:

- **IAS 30-Disclosures in the Financial Statements of Banks and Similar Financial Institutions**

This sets out minimum disclosure requirements for banks and financial institutions. The standard applies to separate and consolidated statements of a group that undertakes banking operations; the standard is applicable to operations on a consolidated basis.

- **IAS-34 - Interim Financial Reporting**

This sets out disclosure requirements for preparation of half yearly accounts of listed companies which, *inter alia*, requires additional disclosures such as a cash flow statement, disclosure of changes in equity, comparison with the position at the end of the immediate financial year instead of the corresponding half yearly period (in the case of balance sheets), and selected explanatory notes to the accounts. ED has also issued a circular to all listed companies, explaining the standard.

- **IAS-35 - Discontinuing Operations**

This requires disclosure by way of note to the financial statements giving information about discontinuing operations. The purpose of disclosure is to enhance the ability of users of the financial statements to make a proper assessment regarding the company's future.

□ **IAS-37 - Provisions, Contingent Liabilities and Contingent Assets**

This sets out the latest internationally acceptable standard with regard to provisions, contingent liabilities and contingent assets.

□ **IAS-38 - Intangible Assets**

This prescribes accounting and disclosure standards for intangible assets which are not specifically dealt with in other IAS.

ENSURING COMPLIANCE WITH STATUTORY REQUIREMENTS OF THE COMPANIES ORDINANCE, 1984

An important function of ED is to monitor the working of listed companies and to ensure that these companies comply with statutory requirements under the Companies Ordinance, 1984.

Major decisions taken by ED during the period under review were as follows:

- Penalties were imposed on the managements of 26 companies, which failed to hold annual general meetings in time. The penalties imposed aggregated Rs.2,327,400/-
- Penalties were imposed on the managements of 33 companies which failed to circulate half yearly accounts in time as required under section 245 of the Companies Ordinance, 1984. The penalties imposed aggregated Rs.6,60,000/-.
- In order to ensure maximum participation of shareholders in annual general meetings and extra-ordinary general meetings, companies were directed to ensure that notices of meetings were published in newspapers with wide circulation.
- ED has taken strict view of the tendency of the management of some companies which had remained closed for some time to sell their assets rather than go through the liquidation process. According to notices published in the press, assets were proposed to be sold to enable managements to pay off their outstanding debts. ED has taken a number of steps to discourage this practice. Besides, the managements of some companies were directed to ensure that before disposing of their assets, minority shareholders of the companies should be compensated adequately by purchasing their shares at a reasonable price, from their own resources.
- Acting on complaints received from shareholders, managements of two companies were directed to disburse dividend already declared by the company. In one case, prosecution proceedings have been initiated against the company due to its failure to implement the directive.

ACTION AGAINST AUDITORS

While examining company accounts, ED has also been checking as to whether the auditors concerned had performed their duties in accordance with statutory requirements. During the period under review, two cases of auditors were referred to the ICAP for disciplinary action.

CORPORATE GOVERNANCE

Prompted by the Commission, a committee constituted by the ICAP prepared a code of corporate governance. The Commission was represented in the committee by the Commissioner with oversight over ED. The code seeks to make far-reaching improvements in the areas of minority representation of company boards, eligibility and role of directors, appointments of key company officials, disclosure requirements, and the role of auditors. The Commission considered the code at a special hearing arranged for this purpose and decided that before it is finalized it must be debated in open seminars so that all points of view can be taken into consideration.

vii. REGULATION OF SPECIALIZED COMPANIES

In addition to regulating the Securities Market and administering the Companies Ordinance, 1984, the Commission is also responsible for regulating all collective investment schemes as well as modarabas, leasing companies and credit rating agencies. These functions are being carried out under the following laws and rules:-

- Investment Companies and Investment Advisers Rules, 1971 which regulate closed-end mutual funds.
- Asset Management Companies Rules, 1995 which regulate open-end mutual funds.
- Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and Modaraba Companies and Modaraba Rules, 1981.
- Leasing Companies (Establishment and Regulation) Rules, 1996 framed under section 506 of the Companies Ordinance, 1984 alongwith NBFIs Prudential Regulations issued by the State Bank of Pakistan.
- Credit Rating Companies Rules, 1995.

This responsibility has been entrusted to the Specialized Companies Division (SCD) which has only recently been set up. During most of the period under review, the responsibility was with ED. While mutual funds are being looked after by a Director, Registrars are responsible for regulation of modarabas and leasing companies. The Modaraba Ordinance vests Registrar (Modaraba) with wide powers enabling him to safeguard interests of Modaraba certificate holders.

In addition to regulatory functions, the Commission also takes the initiative to develop such specialized institutions. Regulatory functions include licensing of these institutions under the relevant laws and rules, monitoring the performance, and examination and analysis of financial statements. Registrars (Leasing) and Registrar (Modaraba) pay special attention to profitability and liquidity of the institutions. They also ensure that the managements of the institutions follow

prudent commercial practices and conform to the Prudential Regulations issued by SBP. Registrar (Modaraba) also enjoys powers, which are vested with the Registrar of Companies including filing of documents, maintenance of records, registration of mortgages and providing facility to the public for inspection of records.

MUTUAL FUNDS

According to the Act, all collective investment schemes are to be regulated by the Commission. Investment Companies and Investment Advisers Rules, 1971 regulate closed-end mutual funds while open-end funds are regulated by Asset Management Companies Rules, 1995 which have been framed under the Securities and Exchange Ordinance, 1969. Under the Investment Companies and Investment Advisers Rules 1971, the Commission licenses both investment advisers and the closed end funds.

The history of the mutual funds industry in Pakistan goes back to early 1960s when specialised institutions like National Investment Trust (NIT) and Investment Corporation of Pakistan (ICP) were established for their promotion. As on 30th June, 2000 the total size of the mutual fund industry in Pakistan was Rs. 27.5 billion, out of which open-end funds amount to Rs. 20.5 billion (or 75%) and the remaining 7 billion (or 25%) comprise closed end funds.

OPEN END MUTUAL FUNDS

National Investment (Unit) Trust (NITL), the first open end fund in Pakistan, was established by the Government in 1962. The Trust was constituted under the Trust Deed signed between NITL and National Bank of Pakistan (as its trustee). The Fund, popularly known as NIT, was set up with the objective of mobilizing savings of the public and investing the funds so pooled in the corporate sector of the economy enabling small investors to participate in the growing

profitability of the corporate sector, and also to broaden the base of equity ownership in the country. NIT, which continues to be in the public sector, is Rs. 20 billion in size representing about 98% of total open-end funds in the country. Being a public sector fund, regulation of NIT remained outside the purview of the Commission till recently. Since the Act required regulation of all collective investment schemes by the Commission, NIT has now been registered with the Commission albeit the NIT scheme has yet to receive formal authorization which will take place in due course upon completion of requirements stipulated under the Asset Management Companies Rules. These Rules were notified in 1995 to promote open-end funds in accordance with which Unit Trust of Pakistan (UTP), the only private open-end fund in the country, was established in 1997. UTP has been constituted under the Trust Deed, signed between ABAMCO Limited as management company and Muslim Commercial Finance Services (Pvt) Limited as a trustee. ABAMCO, established under the Companies Ordinance, 1984 is sponsored by Jahangir Siddiqui & Co. Limited, AIM Management Group, IFC and some other institutions. UTP has shown steady growth, its size being now Rs. 469 million which is 2% of total mutual fund industry.

CLOSED-END MUTUAL FUNDS

The first closed end mutual fund in the country was established in 1967 by Investment Corporation of Pakistan (ICP) established by the Government under the Ordinance with the objective *inter alia* of floatation and management of closed end mutual funds. Since 1967, ICP has established 26 closed end mutual funds. In aggregate, the size of ICP-managed 26 funds on 30th June 2000 was Rs.5.7 billion which represents 81% of the total closed end funds in the country. In 1982, the Government also allowed the private sector to establish and manage closed end funds under the Investment Companies and Investment Advisers Rules, 1971. Golden Arrow was the first closed end fund to be established in the private sector in 1983. As on 30th

June 2000, 13 closed end mutual funds managed by the private sector were listed on KSE. Total closed end funds under management of the private sector are Rs. 1.3 billion which is 19% of closed end funds.

KEY STATISTICS OF CLOSED END FUNDS					
Name of fund	Listed Capital (Rs. In million)	Par Value	NAV 30 June 2000	Market Value 30 June 2000	Last Dividend %
PUBLIC SECTOR					
1 st ICP	50	10.00	13.83	7.00	Nil
2 nd ICP	50	10.00	12.03	6.75	10
3 rd ICP	50	10.00	17.87	10.00	15
4 th ICP	50	10.00	43.18	19.90	20
5 th ICP	50	10.00	12.47	8.00	Nil
6 th ICP	50	10.00	26.24	14.00	20
7 th ICP	50	10.00	13.68	9.90	10
8 th ICP	50	10.00	28.68	15.50	35
9 th ICP	50	10.00	42.50	27.50	50
10 th ICP	50	10.00	21.56	9.00	10
11 th ICP	50	10.00	19.23	9.50	15
12 th ICP	50	10.00	17.47	9.00	15
13 th ICP	50	10.00	39.57	20.00	25
14 th ICP	50	10.00	15.20	8.50	10
15 th ICP	50	10.00	13.96	8.10	Nil
16 th ICP	50	10.00	10.85	7.50	Nil
17 th ICP	50	10.00	14.68	7.05	Nil
18 th ICP	50	10.00	12.04	7.10	Nil
19 th ICP	50	10.00	18.82	10.75	10
20 th ICP	50	10.00	19.72	9.00	10
21 st ICP	50	10.00	5.66	1.80	Nil
22 nd ICP	50	10.00	8.60	3.10	Nil
23 rd ICP	50	10.00	4.62	1.85	Nil
24 th ICP	50	10.00	5.24	1.90	Nil
25 th ICP	50	10.00	8.68	3.55	Nil
SEMF	50	10.00	32.34	16.20	18

Name of fund	Listed Capital (Rs. in million)	Par Value Rs.	NAV 30 June 2000 Rs.	Market Value 30 June 2000 Rs.	Last Dividend %
PRIVATE SECTOR					
<u>Al Meezan</u>	250	10.00	12.66	10.00	6.4
<u>Asian Stock</u>	100	10.00	5.55	4.00	Nil
<u>BSJS</u>	150	10.00	11.60	5.75	31*
<u>Confidence</u>	100	10.00	12.08	6.50	15
<u>Dominion</u>	50	10.00	3.58	1.05	Nil
<u>First Capital</u>	150	10.00		3.00	5(i)*
<u>Golden Arrow</u>	81.05	10.00	4.59	3.00	5
<u>Growth</u>	100	10.00		1.25	Nil
<u>KASB</u>	400	10.00	7.85	4.10	Nil
<u>Prudential</u>	60	10.00		1.75	Nil
<u>Safeway</u>	30	10.00	3.03	3.00	Nil
<u>Security</u>	100	10.00	12.26	5.25	5(i)*
<u>Tristar</u>	50	10.00		1.00	Nil

* Dividend for the year ended June 2000

Investment Advisers are licensed under the Investment Companies and Investment Advisers Rules, 1971 for managing investment portfolios. The Commission monitors the working of the investment advisers and receives annual reports from each adviser. During the period under review, seven licences of Investment Advisors were cancelled on grounds of failure to meet the conditions of licence.

WORKING OF MODARABAS

Presently, 67 modaraba management companies are registered with Registrar (Modaraba) under the Modaraba Ordinance, 1980 and 47 modarabas are in operation. Of these, 39 modarabas are based in Karachi while eight are Lahore based. All modarabas are multi-purpose and are engaged in the following major business activities:-

- ❑ Leasing
- ❑ Commerce & Trade
- ❑ Imports & Exports
- ❑ Underwriting
- ❑ Venture Capital
- ❑ Investment in Stock Market

A statement showing Net Asset Value, Earning Per Share and Dividend Pay-out by Modarabas during the years 1998 and 1999 is given below:

NAV, EPS & DIVIDEND FOR THE YEARS 1998 AND 1999

S.No	Name of Modaraba	NAV	EPS	Div	NAV	EPS	NAV	EPS	Div	NAV	EPS
		30.6.98	30.6.98	30.6.98	31.12.98	31.12.98	30.6.99	30.6.99	30.6.99	31.12.99	31.12.99
1	Al- Noor Modaraba	10.93	0.53	5.00	11.36	0.42	10.97	0.78	7.50	11.63	0.66
2	Al-Zamin leasing Modaraba	12.49	1.19	0.00	13.15	0.65	12.10	0.88	12.50	12.85	0.75
3	Allied Bank Modaraba	11.71	1.89	15.00	12.30	0.59	12.12	1.66	12.50	12.28	0.13
4	B.F. Modaraba	6.25	-0.93	0.00	6.70	0.44	6.74	0.48	0.00	7.32	0.58
5	B.R.R. International Modaraba	13.30	0.96	11.00	14.30	0.86	13.72	1.38	11.00	14.66	0.93
6	Confidence Modaraba 1st	11.86	1.27	10.00	13.38	1.52	11.68	0.52	7.00	12.94	1.25
7	Constellation Modaraba 1st	10.69	0.67	5.00	10.00	0.65	10.19	0.69	5.50	10.00	0.60
8	Crescent Modaraba 1st	12.42	-0.01	0.00	10.87	0.35	11.28	0.64	7.50	14.23	0.53
9	Custodian Modaraba 1st	4.13	-4.54	0.00	0.00	0.00	25.16	0.00	0.00	0.00	0.00
10	Dadabhoy Modaraba 1st	10.13	0.06	0.00	10.41	0.21	10.26	0.06	0.00	10.64	0.17
11	Elite Capital Modaraba 1st	7.82	-0.34	0.00	8.00	0.18	7.95	0.12	0.00	8.15	0.20
12	Equity Modaraba 1st	11.89	0.82	0.00	12.62	0.73	12.30	1.91	15.00	13.40	1.10
13	Financial Link Modaraba	0.71	-1.97	0.00	0.16	-0.56	0.06	-0.65	0.00	-0.13	-0.19
14	Fidelity Leasing Modaraba 1st	11.14	0.73	11.50	11.86	0.63	11.37	1.22	10.00	12.09	0.72
15	General Leasing Modaraba 1st	9.19	-0.53	0.00	9.09	-0.11	14.50	-3.06	0.00	6.17	0.04
16	Grindlays Modaraba 1st	15.82	2.80	22.00	17.18	1.35	16.68	3.05	22.00	18.61	1.93
17	Guardian Leasing Modaraba	7.00	-0.54	0.00	7.28	0.28	7.03	0.14	1.00	7.44	0.41
18	Habib Bank Modaraba 1st	11.62	1.76	15.00	12.37	0.75	12.01	1.89	15.00	13.31	1.30
19	Habib Modaraba 1st	6.55	0.96	7.50	7.23	0.67	6.85	1.29	20.00	7.54	0.69
20	Hajveri Modaraba 1st	11.36	1.25	10.00	11.78	1.03	11.78	1.72	13.00	12.90	1.11
21	IBL Modaraba 1st	10.04	0.09	0.00	11.72	0.68	11.14	1.09	10.00	11.79	0.65
22	Ibrahim Modaraba 1st	11.38	1.19	10.00	12.41	0.94	11.97	1.80	13.00	12.94	0.97
23	Imrooz Modaraba 1st	16.90	6.66	50.00	18.94	2.04	17.15	1.99	17.50	19.42	2.28
24	Industrial Capital Modaraba 1st	8.50	0.54	0.00	9.00	0.50	8.70	0.20	0.00	8.70	-0.00
25	Interfund Modaraba 1st	7.01	-1.43	0.00	7.24	0.41	10.00	0.00	0.00	5.06	-0.12
26	Islamic Modaraba 1st	10.75	0.11	0.00	10.97	0.21	10.02	-0.74	0.00	10.37	0.35
27	LTV Capital Modaraba	8.25	-0.61	0.00	6.04	0.37	5.00	0.00	0.00	0.57	-0.44
28	Mehran Modaraba 1st	2.19	-3.28	0.00	2.25	0.06	2.32	0.12	0.00	3.63	1.31
29	Modaraba Al Mali	10.81	0.02	0.00	11.59	0.77	11.18	1.62	12.50	12.03	0.85
30	Modaraba Al-Tijarah	3.51	-2.06	0.00	3.53	-6.53	3.54	0.02	0.00	3.70	-6.51
31	National Modaraba 1st		-2.03		1.18	0.01	8.12	-0.72		1.12	0.02
32	Pak Modaraba 1st	8.83	0.50	0.00	9.05	0.21	10.93	0.90	10.00	8.43	0.31
33	Paramount Modaraba 1st	11.03	-1.25	0.00	11.75	0.72	11.47	1.13	10.00	11.62	0.68
34	Professional Modaraba 1st	11.34	0.63	0.00	12.01	0.67	11.05	0.89	7.00	12.21	0.74
35	Providence Modaraba 1st	10.86	-2.21	0.00	11.71	0.67	8.20	0.69	5.00	11.70	0.48
36	Prudential Modaraba 1st	8.01	-1.41	8.00	8.47	0.46	9.23	0.10	0.00	9.50	1.30
37	Prudential Modaraba 2nd	9.13	-1.20	0.00	9.72	-1.23	6.19	0.63	5.00	9.70	-0.69
38	Prudential Modaraba 3rd	6.06	0.10	0.00	6.50	0.43	11.68	0.11	5.00	6.68	0.49
39	Punjab Modaraba 1st	12.07	0.00	0.00	12.28	0.21	10.00	0.00	0.00	11.91	0.23
40	Schon Modaraba	0.00	0.00	0.00	0.00	0.00	10.00	0.00	0.00	0.00	0.00
41	Tawakkal Modaraba 1st	0.00	-0.11	0.00	0.00	0.00	11.58	0.02	0.00	0.00	0.00
42	Tri-Star Modaraba 1st	11.56	-0.07	0.00	11.64	0.08	11.31	-0.02	0.00	11.58	-0.00
43	Tri-Star Modaraba 2nd	11.33	0.79	0.00	11.32	-0.01	15.86	1.09	10.00	11.31	-0.00

44	Trust Modaraba	14.76	1.61	0.00	15.30	0.54	12.46	1.39	10.00	15.38	0.52
45	UDL Modaraba 1st	12.07	-1.00	0.00	11.96	0.89	9.97	-0.43	0.00	12.13	1.16
46	Unicap Modaraba	7.09	-0.05	0.00	0.00	0.00	6.80	0.29	0.00	0.00	0.00
47	Unity Modaraba	10.10	0.05	0.00	0.00	0.00	0.07	-10.03	0.00	0.00	0.00

As on 30th June 1999, the total paid up capital of Modarabas was Rs. 8,123.27 million and reserves amounted to Rs. 1,285.94 million.

MONITORING OF MODARABAS

Since the modaraba concept does not provide for participation of modaraba certificate holders in the management of their modarabas, Registrar (Modaraba) has been vested with effective powers under the Modaraba Ordinance to look after the interests of the modaraba certificate holders. The Registrar is empowered to cancel the registration of a modaraba company, order a change in management and appoint an administrator. He also has the power to conduct an enquiry into the affairs of a modaraba and take penal action in case of defaults.

MAJOR ACTIONS TAKEN BY THE REGISTRAR MODARABA

While monitoring the performance of modarabas and their management companies during the period under review, Registrar (Modaraba) noted a number of violations, some of which are mentioned below:-

- ❑ Appointment of auditors without the approval of Registrar Modaraba.
- ❑ Investment of funds of modarabas in the shares of associated undertakings having effect of unfairly benefiting the directors of modarabas and their relatives
- ❑ Charging of remuneration by the Modaraba Company in excess of the limit prescribed under section 18 of the Modaraba Ordinance.
- ❑ Non-recovery of outstanding trade debts, like *morabaha* and *musharika* finances.
- ❑ Heavy losses resulting in erosion of reserves/equity.
- ❑ Unnecessary and unjustified administrative and operating expenses.
- ❑ Non-declaration of dividend.

Exercising powers under the Modaraba Ordinance, Registrar imposed penalties on two modaraba companies for violating the provisions of sections 15 and 18 of the Modaraba Ordinance. The

Registrar also took action against a modaraba company, which purchased shares of an associated company at a manipulated price by using funds of the modaraba. After a thorough enquiry, it was held that the subject transaction was motivated by consideration of giving undue benefit to the persons holding shares in the associated company at the cost of the modaraba. On the intervention of the Registrar (Modaraba), the modaraba company reversed the transaction and a penalty of Rs.360,000/- was imposed.

The Registrar (Modaraba) filed the following four cases with the Modaraba Tribunal, Karachi which are in process:-

<u>Name of the Defendant/Accused</u>	<u>Nature of the case</u>
First Premier Modaraba.	Winding up case under section 23 of the Modaraba Ordinance, 1980.
Chief Executive and Directors of First Premier Modaraba	Prosecution case under section 31 of the Modaraba Ordinance, 1980.
Chief Executive and Directors of First Tawakkal Modaraba.	Prosecution case under section 31 of the Modaraba Ordinance, 1980.
Chief Executive and Directors of Schon Modaraba.	Prosecution case under section 31 of the Modaraba Ordinance, 1980.

OTHER DEVELOPMENTS

MERGERS OF MODARABAS

M/s. Al-Ata Management Services (Pvt) Ltd. filed an application before the Lahore High Court for merger of M/s. Al-Ata Management Services (Pvt) Ltd. and Al-Ata Leasing Modaraba with and into M/s. Crescent Business Management (Pvt) Ltd. and First Crescent Modaraba respectively which has been allowed by the honorable court.

CHANGE OF MANAGEMENT

M/s. Dawood Leasing Company had applied for takeover of the management of two modarabas. Change of managerial control of Guardian Leasing Modaraba and First General Leasing Modaraba were allowed by the Commission. In two other cases, change and transfer of management of Al-Ata Leasing Modaraba and First Confidence Modaraba to M/s. Crescent Business Management (Pvt) Ltd. was also allowed.

The auditors of Unicap Modaraba managed by M/s. Chartered Management Services (Pvt) Ltd while qualifying their report on the annual accounts of the Modaraba for the year ended 30th

June, 1999 indicated grave mis-appropriation of the modaraba funds. The Registrar (Modaraba) cancelled the registration of M/s Chartered Management Services (Pvt) Ltd in the public interest vide order dated 3rd May, 2000 and removed it from the management of Unicap Modaraba. The Registrar allowed M/s. Al-Zamin Modaraba Management (Pvt) Ltd to take over the management of Unicap Modaraba. This was the first time that action was taken against a modaraba company under section 19 of the Modaraba Companies and Modaraba (Floatation & Control) Ordinance, 1980, since the inception of modarabas in Pakistan.

As a result of action taken by the State Bank of Pakistan against Bankers Equity Limited (BEL) and consequent change of management of BEL, an associated undertaking of Long Term Venture Capital (LTVC) Modaraba, an investigation into the transactions of LTVC Modaraba with BEL since takeover of BEL by the LTVC Modaraba was carried out. The Inspectors in this report indicated violations of law by the modaraba and its management company. Consequently, the management of this modaraba has been changed.

REGISTRATION OF A NEW MODARABA COMPANY

After a period of about five years, a new modaraba management company under the name of M/s. Markaz Tajjarat-e-Islami was registered on 25th October, 1999 under the Modaraba Ordinance, 1980. The modaraba company is sponsored by a religious scholar and a chartered accountant.

CONSTITUTION OF RELIGIOUS BOARD.

For the purposes of ensuring that the business of modarabas conforms to the injunctions of Islam, a Religious Board, consisting of a Judge of the High Court and two religious scholars, examines the prospectus and instruments employed by the modarabas. The current Religious Board constituted by the Federal Government for a term of three years vide notification dated 1st May, 1999, consists of the following:-

- | | | |
|------|---------------------------------|----------|
| i) | Mr. Justice Kh. Muhammad Sharif | Chairman |
| ii) | Prof. Dr. Sayyid Tahir | Member |
| iii) | Mufti Muhammad Rafi Usmani | Member |

CONSTITUTION OF MODARABA TRIBUNALS.

The following Modaraba Tribunals were constituted in terms of the provisions of section 24 of the Modaraba Companies and Modarabas (Floatation & Control) Ordinance, 1980. These tribunals exercise powers under sections 25 to 27 of the Modaraba Ordinance.

	<u>Name of Tribunal</u>	<u>Province</u>	<u>Place of sitting</u>	<u>Term of 3 years starting from</u>
1.	Judge, Banking Court- I	Sind	Karachi	27.05.2000
2.	Judge, Banking Court-II, Lahore.	Punjab	Lahore	18.06.2000
3.	Judge, Banking Court, Peshawar.	NWFP	Peshawar	27.05.2000

REGULATORY INITIATIVES

□ Prudential Regulations

The Federal Government amended the Banking Companies Ordinance, 1962 in 1997 and as a result, monitoring the business of modarabas under the Prudential Regulations for NBFI's was transferred from the State Bank of Pakistan to the Commission. Considering the fact that Prudential Regulations were not institution-specific, the Commission issued Prudential Regulations for Modarabas as an additional condition to Modaraba Authorization Certificate. The new regulations were issued and circulated on 24th April, 2000. All modarabas were required to bring their affairs and business operations in full conformity with these Regulations by 30th June, 2000.

□ Circulars Issued

- Circular No. 6/99, dated 31st March, 1999 rendering Arbitration optional Clause in the Modaraba Agreements used by the modarabas for business purposes.
- Circulars No. 11/99, dated 6th May, 1999 regarding compliance of instructions issued for appointment of directors/chief executive in modaraba companies.
- Circular No.7/2000, dated 25th May 2000 directing modaraba companies to furnish complete applications for approval of change in directorship along with complete particulars on newly devised Form-I/II for approval of the Registrar Modaraba.

LEASING COMPANIES

As a result of amendments in the Banking Companies Ordinance, 1962 effected in 1997, regulation of leasing companies was assigned to Corporate Law Authority. This function is now being carried out by the Commission.

STATISTICAL DATA OF LEASING COMPANIES

At present, 33 leasing companies are registered under the Companies Ordinance, 1984 and with the exception of one, all are listed companies. At the end of June 2000, total equity of leasing companies was Rs. 9,396.07 million with paid up capital of Rs. 4,738.46 million and reserves of Rs.4,657.61 million. Total investment in leasing business was Rs. 31.02 billion, which constitutes 76% of the total assets of these companies. Total liabilities of leasing companies are Rs. 29,836.80 million while total assets are Rs.39, 232.87 million. 19 leasing companies have issued Certificates of Investments (COIs) aggregating Rs. 8.53 billion. All leasing companies proposing to issue COIs are required to have the instruments rated by a recognized credit rating agency.

DEPOSITS RAISED THROUGH COIs

Sr. No.	NAME OF LEASING	COIs
		Rs. in thousands
1	Asian Leasing	400*
2	Askari Leasing	4,753,370
3	Atlas Leasing	430,059
4	Crescent Leasing	74,300
5	Dawood Leasing	102,100
6	English Leasing	11,704
7	FLC Leasing	89,007
8	Gandhara Leasing	12,123
9	Inter Asia Leasing	74,630
10	Lease Pak	30,000
11	National Assets Leasing	2,500
12	NDLC	634,324
13	Natover Motor Leasing	12,401
14	ORIX Leasing	626,600
15	PICL	41,139
16	PILCORP	380,363
17	Trust Leasing	71,982
18	Union Leasing	46,298
19	Saudi Pak Leasing	1,131,927
	TOTAL:	8,525,227

*Permission for COIs has been withdrawn

CREDIT RATING OF LEASING COMPANIES THAT HAVE ISSUED COIs

S.No.	Name of Company	Rating		
		Year ended	Short Term	Long Term
1.	Asian Leasing	30.6.1999	B	BB
2.	Askari Leasing	30.6.1999	A1	A+
3.	Atlas Lease	30.6.1999	A2	A-
4.	Crescent Leasing	30.6.1999	A2	A-
5.	Dawood Leasing	30.6.1999	A2	A-
6.	English Leasing	30.6.1999	D3	BBB-
7.	First Leasing Corp.	30.6.1999	B	BB+
8.	Inter Asia Leasing	30.6.1999	B	BB+
9.	Lease Pak	30.6.1998	BB	B
10.	National Assets Leasing	30.6.1998	B	B+
11.	NDLC	30.6.1999	A1	A
12.	Orix Leasing	30.6.1999	A1+	AA-
13.	Paramount Leasing	30.6.1999	A2	BBB+
14.	PICL	30.6.1999	D2	BBB+
15.	Saudi Pak Leasing	30.6.1999	A1	A+
16.	Trust Leasing	30.6.1999	A3	BBB+
17.	Union Leasing	30.6.1999	A3	BBB-
18.	Ghandhara Leasing	30.6.1998	A3	BBB

MONITORING AND REGULATION

Registrar (Leasing) in SCD monitors and regulates leasing companies in terms of the Leasing Companies (Establishment and Regulation) Rules, 1996 framed under section 506 of the Companies Ordinance, 1984. Under these Rules, leasing companies require permission of the Commission for change of chief executive and directors, for opening new branches and for issuance of COIs. Advertisements are also required to be approved by the Commission. In addition to compliance with the requirements stipulated in the Leasing Rules, the Registrar (Leasing) also ensures that the requirements of NBFIs Rules issued by the State Bank of Pakistan as well as requirements of IAS-12 and 17 are duly observed. SCD monitors periodical reports received from leasing companies, which provide information on:

- ❑ Liquidity position.
- ❑ Equity and liabilities
- ❑ Equity and contingent liabilities.
- ❑ Distribution of deposits/COIs by maturity.
- ❑ Source of borrowings and maturity.
- ❑ Analysis of advances.

REGULATORY ACTIONS

During the period under review major regulatory actions taken were:

- ❑ Annual accounts for the year ended June 30, 1999 were received from all leasing companies. In the case of one company, 'separation benefits' granted to a firm's chief executive of the company were reversed.
- ❑ All leasing companies have been directed to have an additional audit in respect of compliance with Prudential Regulations.
- ❑ In the case of one leasing company, a special audit was assigned to a firm of Chartered Accountants on the advice of the State Bank of Pakistan. The report of the auditors was sent to the State Bank.
- ❑ Permission was given to nine leasing companies for transfer of shares by the sponsoring directors/promoters.
- ❑ One leasing company was directed to change its Chief Executive, as he was not found to be fit for the assignment. In the case of another leasing company, permission to induct a new director was not allowed due to a poor Credit Information Bureau report.
- ❑ Eight companies were directed to comply with the requirements of investment of minimum of 70% of their assets in leasing business.
- ❑ Eleven companies were directed to extend credit facilities to small entrepreneurs upto the prescribed level of the 5% of the leasing facility.
- ❑ Three companies were directed to fulfil the requirement of investing upto 14% of the prescribed liabilities in government/listed securities.

OTHER ISSUES

- ❑ New leasing companies are required to have minimum capital of Rs. 200 million under the Leasing Companies (Establishment and Regulation) Rules, 1996. However, at present, only nine companies have paid up capital in excess of Rs. 200 million. Although existing companies were directed to raise their capital upto Rs. 200 million by 6th

November 1999, 24 leasing companies have yet to raise their capital upto the required amount. These companies have attributed their default to market conditions, which did not encourage issuance of right shares.

□ A number of investment banks have applied for permission to do leasing business. After hearing both the representatives of investment banks and leasing companies as well as other stakeholders, the Commission took the following decisions:

“(i) In order to allow the investment banks to engage in leasing business, the investment banks in question will have to meet the same criteria as applicable to leasing companies. For investment banks desiring to expand into the leasing business, the preferred course will be to set up adequately capitalized subsidiaries in accordance with the leasing rules.

(ii) Should an investment bank prefer to conduct lease financing within its own doors, then it will have to satisfy the Commission that it is fully equipped to do so and fulfil the requirements prescribed in this regard. It would, therefore, be necessary for such an investment bank to raise and/or allocate capital for a minimum of Rs. 200 million for the purpose of leasing activity. The remaining capital after this allocation should meet the minimum prescribed capital requirement for an investment bank. Also, the investment bank in question will have to satisfy the Commission that it has the staff resources and necessary specialized expertise to carry out leasing business. For this purpose, it would be required to set up a separate department headed by a Chief Operating Officer with the requisite qualifications as well as substantial experience relevant to lease finance. The loan funds raised by an investment bank may only be utilized for leasing in proportion to the capital allocated by it for lease finance.

(iii) Investment banks and NBFIs which have already been given permission by the Commission to undertake leasing business will also have to comply with these conditions by June 30, 2001.

(iv) The above prescription does not restrict an investment bank from using the form of lease instrument to engage in its usual project financing activities and it would be within the scope of its business to finance a complete industrial unit or plant (whether green-field or by way of an additional plant) through use of the leasing modality either entirely by itself or in consortium with other financial institutions (including leasing companies).”

□ The Commission has notified for public opinion new rules to be called Leasing Companies (Establishment and Regulation) Rules, 2000 in substitution of the existing Rules with the aim of providing a comprehensive regulatory framework for the lease finance sector. The new Rules combine both the establishment of leasing companies as well as prudential regulations for the conduct of leasing business.

CREDIT RATING AGENCIES

The Commission is responsible for licensing and regulating credit rating agencies in the country. Two credit rating agencies have been established under the Credit Rating Companies Rules, 1995. The first company, PACRA, was established in Lahore in 1996 as a joint venture of IFC, IBCA and the LSE. The second credit rating company established in 1997, in Karachi, is DCR-VIS Credit Rating Agency, which had Duff and Phelps as technical partner. The presence of credit rating agencies has facilitated the development of a fixed income securities market in the country. The Commission has directed that all instruments of deposit from the public by companies in whatever form should be rated by a registered credit rating agency and the rating should be disclosed to potential investors. The Commission monitors the rating process and seeks clarification on any particular rating issue from the credit rating agency concerned.

viii. REGULATION OF INSURANCE

The business of insurance in Pakistan has been regulated under the Insurance Act, 1938. In order to implement and administer the provisions of the aforesaid Act, the Government established the Department of Insurance, in April 1948, as a department of the Ministry of Commerce, headed by a Controller of Insurance. Until eventual implementation of the new law of insurance, namely, Insurance Ordinance, 2000 which has only recently been enacted, the insurance industry has continued to be regulated by the Controller of Insurance. While formulating the programme for reform of the Insurance Industry, the Government considered two options: either set up a body exclusively for regulation of the Insurance Industry or vest the Commission with the necessary regulatory authority. It was finally decided that the Commission should be assigned the responsibility of regulating the Insurance Industry. As a consequence, the duty of administering the insurance law was passed on to this Commission in August 1999. This policy decision of the Government was ratified by the Insurance Ordinance, 2000, which has replaced the Insurance Act, 1938.

In view of the above decision and requirement of law, an Insurance Division has been incorporated in the Corporate Plan of the Commission. As this Division was not in existence during the period under review, its performance would be reflected in the next report of the Commission. However, its main functions would be as under:

- registration and regulation of insurance companies;
- examination of several matters including annual accounts, actuarial reports, solvency margins to be maintained by insurance companies, re-insurance arrangements, level of management expenses, premium rates and terms and conditions of policies of insurance companies;
- Investigation into the affairs of insurance companies and issuance of directives under the Law;
- Inspection of the record of the companies and insurance intermediaries;
- Approvals and permissions under the powers conferred under the Insurance Law; and
- Appointment of administrators to replace board of directors and to make applications to the Courts for winding up

MAIN OBJECTIVES OF THE INSURANCE ORDINANCE, 2000

The new insurance law has the following objectives:-

- ❑ To correct the existing defects in the insurance market and strengthen the regulatory system of insurance.
- ❑ To replace the existing Department of Insurance with a new regulatory authority i.e. the Commission with a view to strengthening the role of the regulator in the public as well as private sector for effective enforcement of insurance laws.
- ❑ To improve the capitalization and administration of insurance industry, remove prevailing malpractices, strengthen the role of insurance intermediaries and surveyors and improve their quality of services. Also introduce insurance brokers in the market.
- ❑ To improve and strengthen the financial soundness of insurance companies by enhancing their level of minimum paid up capital and solvency requirements. Also, bring public sector insurance corporations under the purview of Insurance Ordinance.
- ❑ To introduce market conduct provisions for developing capital market and establish criteria for sound and prudent management of insurers, as well as protect the rights of policy holders.
- ❑ To gradually liberalize and make reinsurance arrangements more effective.
- ❑ To establish the institution of Insurance Ombudsman for investigating the complaints of aggrieved persons.

MAIN FEATURES OF INSURANCE ORDINANCE, 2000

- ❑ The Ordinance provides for regulation of Insurance Industry by an autonomous body i.e. the Commission replacing the institution of Controller, Department of Insurance.
- ❑ The insurance business has been bifurcated into two main divisions, (i) Life Insurance Business; and (ii) Non-Life Insurance Business. Each of these two divisions have further been divided into different classes.
- ❑ Capital requirements for life insurance and non-life insurance companies have been raised from Rs. 100 million to Rs. 150 million and from Rs. 40 million to Rs. 80 million respectively.

- ❑ The minimum solvency margin has not been fixed and is to be prescribed under the rules from time to time.
- ❑ Enforcement of the insurance law has been made more effective by giving to the Commission powers of investigation and issuance of directives.
- ❑ Detailed provisions have been made to prevent insurers from indulging in practices prejudicial to the interest of policyholders.
- ❑ Provision has been made for the institution of an Insurance Ombudsman who shall have the authority to investigate mal-administration of insurance companies and to redress grievances of the insurers.
- ❑ Provision has been made for the constitution of an Insurance Tribunal, which shall have, civil as well as criminal jurisdiction.
- ❑ Special provisions have been made for the establishment of a Small Disputes Resolution Committee for speedy settlement of minor claims.
- ❑ Penal provisions for contravention of the insurance law have been made stricter.
- ❑ Reinsurance arrangements have been strengthened and rules would be made for reinsurance arrangements even outside Pakistan.
- ❑ Life insurance business companies are required to maintain separate funds for separate classes of their business.
- ❑ Adequate disclosure requirements by insurance companies have been prescribed for purposes of reporting to the regulator.

ix. ADMINISTRATION, HUMAN RESOURCE DEVELOPMENT AND SUPPORT SERVICES

Support Services Division (SSD) is responsible for provision of efficient support services to the entire Commission including:

- ❑ Matters relating to finance and accounts;
- ❑ Handling of all legal matters relating to corporate laws being administered by the Commission, dealing with court cases, and providing legal advice to the Commission;
- ❑ Development of human resource, training of employees and appropriate recruitment rules for the induction of staff;
- ❑ Administrative matters relating to the security of the Commission's property, handling of the upkeep of the office premises and all other managerial issues; and
- ❑ Computerization, automation of the system and all matters relating to information technology.

SSD has been organized into five Wings, namely:-

- ❑ Finance and Accounts
- ❑ Administration
- ❑ Legal
- ❑ Human Resource
- ❑ Information Technology

During the period under report, the Commission has been endeavouring for the establishment of its organizational set up and framing of rules, regulations and procedures. SSD has been able to undertake the following assignments which were necessary for the operationalization of the Commission:-

- ❑ A separate Finance and Accounts Wing was established on 1st July 1999, the date when the Commission became autonomous in terms of financing.
- ❑ A standing operating procedure with regard to expenditure, revenue, imprest, accounting system for CROs and procurement of fixed assets was prepared.

- ❑ A formal Financial and Accounting Manual was prepared with the help of consultants appointed by ADB. The pay roll of the employees was computerized which worked successfully during the period.
- ❑ Accounting records were maintained according to the prescribed procedure.
- ❑ Habib Bank was nominated as a banker of the Commission and 18 collection accounts and 9 checking accounting were opened with its branches at various stations.
- ❑ Internal audit was introduced and a separate Pre-audit Department was established.

Consequent upon the above arrangements, Finance and Accounts Wing was able to reconcile its receipts and get its accounts audited within the statutory period.

SSD is at present engaged in revamping the system for administration of human resource, establishment of a separate legal department as well as a department of information technology.

STAFFING

Section 43 of the Act empowers the Commission to determine suitability of officers and staff working in the Authority for appointment in the Commission. Such employees were not granted any right or lien to appointment on any post in the Commission. Pursuant to these statutory provisions, the Commission carried out an exercise to determine the suitability of the employees of the Authority and after careful consideration decided to release 21 officers working in BS-17 to BS-21 and 59 other staff members. On the basis of the qualifications and experience prescribed under the Corporate Plan, the Commission has so far inducted 39 new officers upgrading the professional expertise of the Commission and improving its ability to discharge its responsibilities.

COMPUTERIZATION

Computerization was originally introduced in the organization (then the Authority) in early 1992, with the objective of facilitating name search of companies and to keep a database of companies incorporated under the Companies Ordinance, 1984. Over the years, the need was felt to expand and enhance the programme in order to improve operational capability and also to keep pace with similar organizations in the region.

Presently, the company database system is being used in the Commission at its Headquarters and in the CROs. The database contains some basic information about all registered companies. The existing system, however, is not efficient and up-to-date and CROs are not electronically linked to headquarters. Record creation for new companies is centralized at the head office, whereas subsequent changes to the company records are done at their respective CROs and then replicated at all branches.

A database containing annual and half-yearly accounts of public-listed companies is being maintained at headquarters. This database system is being used to generate various reports such as non-payment of dividends by listed companies. At present, there are about 754 listed companies, and the database contains accounting data of these companies for the last two years.

The Commission is cognizant of the present problems faced by it in its monitoring procedures, the inherent delay in manual handling of all matters, problems faced by the public in getting quick and timely service from the Commission and the lack of an electronic communication system with the stock exchanges and CROs. The Commission is taking steps to address such problems through a carefully designed automation programme.

It is also proposed to provide on a fast track basis, certain basic functions, such as:-

- ❑ Availability of new names.
- ❑ Registration of new companies.
- ❑ Registration of mortgages/charges.
- ❑ Inspection of documents.
- ❑ Copies of documents.
- ❑ Filing of documents

These reforms are expected to bring marked improvements both in the quality and speed of service to the corporate sector.

Software is being developed to enable monitoring of the three stock exchanges on real time basis. Unusual features in trading would be picked up and examined for timely corrective measures.

The Commission's Headquarters and CROs are being connected through WAN. Databases are being developed for use by all regional offices. Updating of data would be facilitated by a properly designed communication system. Internal correspondence and circulars would also be handled electronically by way of e-mails and intranet facilities.

x. OTHER MATTERS

ACCOUNTANCY PROFESSION

In view of the close relevance of accountancy profession with the corporate sector, the Commission is administering the accountancy profession in the country. The Commission is represented on the Council of ICAP by its Chairman. During the period under review, the Commission also worked in close co-ordination with ICAP, which is a self-regulatory body, on all policy matters relating to accountancy.

REVISION OF THE CHARTERED ACCOUNTANTS OF PAKISTAN ORDINANCE, 1969

The Chartered Accountants of Pakistan Ordinance which regulates the profession of Chartered Accountancy in Pakistan was promulgated in 1961. Since its promulgation, the Ordinance was amended only once in 1983. With the developments since 1983, amendments in the Ordinance became necessary. The final draft of the new ICAP Ordinance, sent by the ICAP to the Commission, is under examination and shall be submitted to the Government shortly for enactment and promulgation.

AMENDMENTS IN CHARTERED ACCOUNTANTS BYE-LAWS 1983

Amendments in Bye-laws 8, 97, 106, 109, 118, 124 & 126 of the Chartered Accountants Bye-laws, 1983 were approved by the Commission which were notified by the ICAP vide Notification No. SRO.2 (KE) 99, dated 10th February, 1999 and No. 61(KE)/99- dated 17th May, 1999. Amendments in Bye-law 91, of the Chartered Accountants bye-laws, 1983 were also approved by the Commission on 22nd May, 2000 for notification by the ICAP.

REFERENCES MADE TO ICAP

During the period under review, the Commission made a number of references to ICAP on different accountancy issues. A reference was made regarding non-compliance by companies and auditors of the requirements of IAS-25 and Technical Release 23 was issued by the ICAP regarding evaluation of investment in the shares of listed companies. The Institute finally issued

a circular in December, 1999 advising its members to strictly abide by the requirements of IAS-25 and TR-23.

APPLICABILITY OF IAS 27 AND SCHEDULE IV TO THE COMPANIES ORDINANCE, 1984 TO NON-LISTED SUBSIDIARIES

ICAP pointed out to the Commission certain practical difficulties in adoption and application of IAS No. 27 relating to consolidation of financial statements. On the recommendations of a Committee constituted by the Commission which consisted of representatives of some Chartered Accountants firms and officers of the Commission, the Commission decided to issue an order under section 246 of the Companies Ordinance, 1984. According to the order, financial statements of non-listed subsidiaries i.e., private and non-listed public companies which are subsidiaries of listed holding companies should prepare their financial statements under the same disclosure requirements which are applicable to the listed companies.

INTERNATIONAL RELATIONS

The Commission has been keen to interact with its counterpart regulatory bodies in other countries. During the year under review, Chairman and Commissioners as well as other officers of the Commission participated in important conferences and meetings of the Committees of International Organization of Securities Commissions (IOSCO). Mr. Khalid A. Mirza, Chairman, participated in the 25th Annual Conference of IOSCO held at Sydney from 13th to 19th May 2000. Mr. Tariq Iqbal Khan, Commissioner and Mr. M. Ayub Qureshi, Director (Securities) participated in IOSCO Emerging Markets Committee meetings held at New Delhi, India from 22nd to 25th November, 1999. Mr. Atta Mohammad Khan, Registrar of Companies and Mr. Ashfaq Ahmad Khan, Director (Enforcement) participated in an enforcement institute hosted by Financial Supervisory Services, at Seoul which was sponsored by Asia Pacific Regional Committee (APRC) of IOSCO. The Commission is hosting a meeting of APRC of IOSCO at Bhurban from 10th to 11th October 2000. This is the first time that Pakistan would be hosting any IOSCO event.

COMPLIANCE WITH Y2K

The Commission took a number of steps to ensure compliance of all listed companies with Y2K. The Commission issued Circulars to all the listed companies inviting their attention towards the Y2K compliance and advising them to modify their automated systems to render them Year 2000 compliant. Another Circular was issued to the listed companies and stock exchanges emphasizing upon them the need for making their systems Y2K compliance. Listed companies were also required to report the status of Y2K compliance in their annual accounts. Due to measures taken by the Commission as well as by the Pakistan Computer Bureau, listed companies, exchanges and the accounting professionals did not face any problem in terms of Y2K and no incident was reported.

ABBREVIATIONS AND ACRONYMS

Authority	Corporate Law Authority
ADB	Asian Development Bank
AGM	Annual General Meeting
APRC	Asia Pacific Regional Committee
BEL	Bankers Equity Limited
Commission	Securities and Exchange Commission of Pakistan
CLA	Corporate Law Authority
CLAD	Company Law Administration Division
CDC	Central Depository Company
CDS	Central Depository System
CNS	Continuous Net System
COIs	Certificates of Investments
CROs	Company Registration Offices
DFIs	Development Financial Institutions
ED	Enforcement Division
Government	Federal Government
IAS	International Accounting Standard
ICP	Investment Corporation of Pakistan
ICAP	Institute of Chartered Accountants of Pakistan
IOSCO	International Organization of Securities Commissions
IFC	International Finance Corporation
ISE	Islamabad Stock Exchange
KSE	Karachi Stock Exchange
LSE	Lahore Stock Exchange
LTVC	Long Term Venture Capital
NBFIs	Non-Banking Financial Institutions
NIT	National Investment Trust
NITL	National Investment (Unit) Trust Limited
NCSS	National Clearing and Settlement System
PACRA	Pakistan Credit Rating Agency
Policy Board	Securities and Exchange Policy Board
SBP	State Bank of Pakistan
SCD	Specialized Companies Division
SSD	Support Services Division
SD	Securities Division
SPVs	Special Purpose Vehicles
The Act	The Securities and Exchange Commission of Pakistan Act, 1997
TFCs	Term Finance Certificates
UTP	Unit Trust of Pakistan
WAN	Wide Area Network
Y2k	Year 2000