Vision

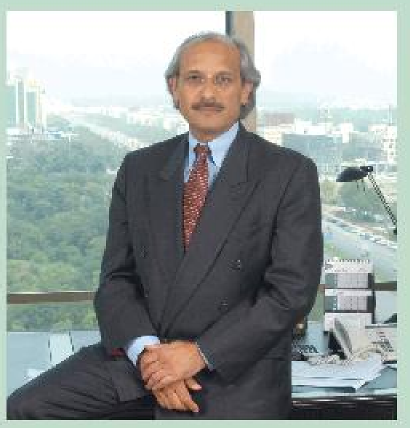
The development of modern and efficient corporate sector and capital market, based on sound regulatory principles, that provide impetus for high economic growth and foster social harmony in the country.

Mission

To develop a fair, efficient and transparent regulatory framework, based on international legal standards and best practices, for the protection of investors and mitigation of systemic risk aimed at fostering growth of a robust corporate sector and broad based capital market in Pakistan.

Strategy

To develop an efficient and dynamic regulatory body that fosters principles of good governance in the corporate sector, ensures proper risk management procedures in the capital market and protects investors through responsive policy measures and effective enforcement practices.



Chairman's Review

The Securities and Exchange Commission of Pakistan (the Commission) has made tremendous efforts to ensure that it keeps pace with Government of Pakistan's economic development programme and indeed to supplement the same as we recognize that the Commission has a developmental as well as a regulatory role. Consequently, the Commission has taken great strides in its efforts to ensure that the standards and principles adopted in the Pakistani capital markets conform to international best practices. With this objective in view, a comprehensive review is being undertaken of the laws, rules and regulations in all areas within our remit with a view to ensuring that a transparent, orderly and stable market place is established. Investor protection is a key objective and SECP is moving towards a regime where onsite and offsite inspections are common place.

Market Review

The Karachi Stock Exchange 100 Shares - Index showed a healthy growth of 34 percent, closing at 9,989.41 on 30 June 2006 compared to 7,450.12 at the end of last year. Market capitalisation of Karachi Stock Exchange (KSE) crossed PKR 2.8 trillion (US$ 46.69 billion), an increase of 35 percent over last year.

Capital Market Reforms - Ensuring Transparency and Mitigating Risk

To reduce systemic risk at the exchanges, the Commission, during the year, introduced a new risk management structure based on Value at Risk (VaR) principles, together with a new valuation methodology, again based on VaR, for valuing the collateral held by the exchanges. A pre-trade margin verification system was also implemented in all the markets. Position limits at market, member and client levels have been introduced and are in the process of being implemented. To recognise the true exposure of the market, netting regime has been overhauled and now netting across markets, across settlements or across clients is not allowed.

In order to ensure that the market is not starved for funding, the Commission has followed a policy of improving and strengthening the avenues of accessing liquidity besides introducing new leverage products to give the market a choice. The carry-over trading (badla) system of financing was replaced by a Continuous Funding System (CFS) which was introduced as an interim measure during late 2005. The Commission revamped the CFS system this year and strengthened it by introducing position limits, CFS funding can be availed against ready purchases only, banning inhouse badla, increasing the number of scrips to accommodate inhouse badla positions and enhancing the CFS limit from Rs. 25 billion to Rs. 70 billion. This had a salutary effect on cost of financing and average cost of funds has come down to 12-13 percent from earlier 18-20 percent. The Commission has introduced CFS Mk II, a new financing product, essentially akin to margin financing, which would adequately address the biases inherent in the existing CFS and also provide a level playing field to all market participants. This product is under implementation at the National Clearing Company of Pakistan Limited.

To ensure transparency in the market place, the use of client codes was made mandatory and Universal Client Identification Number (UIN) was introduced and implemented from 1 August 2006. Now UIN and client codes are checked at a pre-trade level ensuring that all trades can be tracked to the real investor.

Direct Margins by Financial Institutions

To ease the capital and working capital requirements of the brokerage community and to enable them to use their scarce resources for development of the retail sector, the Commission has promoted a regime where all local financial institutions will be required to deposit the relevant margins on their trades directly with the stock exchanges. This will enable small brokerage houses to provide specialized services to financial institutions.

Inspection - Monitoring and Surveillance

The Commission has made a policy decision that monitoring and surveillance of the market will be its top priority. Inspection and investigation capacity of the stock exchanges and the Commission is, therefore, being enhanced to enable onsite and offsite inspection to take place on a routine and regular basis, together with the capacity to undertake full blown investigations whenever the need arises. Where, either on a complaint or based on offsite reviews, special investigations are necessitated, these will be conducted immediately. A serious fraud investigation unit is in the process of being set up manned by fully qualified and trained persons to handle serious fraud.

The Commission has purchased a market surveillance and monitoring system to enable the Commission to monitor the market on a real time basis. This system together with the UIN capability would ensure that manipulation, wash sales and front running are eliminated and that the Commission has the wherewithal to react in a timely manner. Presently, the Commission continues to monitor the market through inhouse developed utilities. The Commission has also developed a new capital adequacy regime for the broking community which is currently in discussion phase prior to implementation.

Demutualisation

In order to ensure that the ownership and management of the exchanges are seperated, the Commission has single mindedly pursued the process of demutualization of the stock exchanges. Amendments were piloted in the Finance Bill 2006 to enable the process to start pending enactment of a specialised Demutualisation Act. The Commission has signed a Memorandum of Understanding (MoU) with KSE which provides for an eighteen months timeline to complete the demutualisation process. We are confident that demutualisation shall take place by December 2007.

Corporate Sector Development

Several initiatives have been taken to encourage businessmen to opt for incorporating a company rather than working as a partnership or sole-proprietorship. The steps include facilitation to form a single-member company, provide templates of memorandum and articles of association, self selection of business name, providing guidance by publication of guidelines, holding of promoters conference, reduction in fees and abolition of stamp duty. These steps resulted in increased incorporations in as much 6186 companies were registered in the year, which is a 100 percent increase over the previous year. During the year renewed efforts were made to clean up the CRO data.

Holding Companies

A lot of developmental work has been done on introducing a Holding Company concept to our corporate sector. Extensive discussions have been held with all stakeholders and the Central Board of Revenue to ensure that necessary tax incentives are provided to enable companies to move towards group holding structures.

NBFI Review

The Commission is at an advanced stage of implementation of the Voluntary Pension System Rules, 2005. Four applications have been received for the grant of registration to act as Pension Fund Managers and licences have been issued.

Based on the market feedback, necessary changes in the tax treatment of the Voluntary Pension System (VPS) have been made through an amendment in the Income Tax Ordinance, 2001. Various tax anomalies have been removed and scope of the VPS has been expanded. The Commission is in the process of finalising several guidelines for proper implementation of the VPS Rules.

In pursuance of its objective to develop the market and encourage new products, the Commission is preparing to put in place the Private Equity and Venture Capital Rules developed with the recommendations received from market participants.

The Real Estate Investment Trust Rules were also finalised by the Commission during the year and are expected to be promulgated shortly. The development of Real Estate Investment Trusts would enhance the outreach of consumers, particularly middle-income, interested in acquiring a stake in real estate. Moreover, they would provide for financing of large projects at the same time providing for diversification and deepening of the mutual fund industry.

Insurance Sector

Insurance is an important segment of capital markets and the Commission's capacity in this area is being strengthened. With the introduction of Takaful, the sector has shown considerable growth and three new life insurance companies and one general insurance company have started operations or are in the process of commencing soon. The Commission has revised the paid-up capital requirements for existing and new insurance companies to ensure that the insurance sector can grow and develop and be able to play an effective and due role in our capital markets.

Participation in IOSCO

The Commission actively participated in the International Organisation of Securities Commissions (IOSCO). As Chair of Working Group 3, Pakistan was tasked with providing a Report on "Guidance to Emerging Market Regulators Regarding Capital Adequacy Requirements for Financial Intermediaries". The Commission prepared and submitted the report which has been accepted by the Emerging Markets Committee of IOSCO and is in the process of being implemented.

Capacity Building of the Commission

The biggest challenge facing the Commission is access to high quality and well trained manpower. The Commission has revised its payroll and perquisites in consultation with HR Consultants to bring the same in line with the market. Annual reviews and promotion policies and procedures have been streamlined and bell curve introduced. Systems have been put in place to ensure that the evaluation process is fair, just and properly conducted.

To enhance capacity at the Commission, we are in the process of hiring over 200 officers in various grades. Again the process and procedures have been revamped to ensure that the selection process is transparent to ensure that the best candidates are selected and *sifarish* has no role. Continuous training is an avowed goal of the Commission as we believe that training the existing staff will make a huge difference for the Commission as well as to the individuals concerned.

With a view to providing an effective service to the regulatees, a full fledged Karachi office has been established so that the Commission becomes accessible to the regulatees and our capacity to access the regulatees is increased.

E-Services

With a view to providing effective and convenient service to our corporate regulatees and to streamline and facilitate the procedures for registering a company together with selection of name, submission of various forms and fees, registration of charges etc., we are in the final stages of instituting an internet based system, which would facilitate and speed up the process and would dispense with the need to visit the Commission offices. In future, all returns, filing of all types of forms etc., would be done through the internet. Once implemented, this process will increase the Comission's efficiency, reduce turnaround time and provide great convenience to the regulatees.

We are also in the process of introducing a new Corporate Universal Identity Number for each corporate, which will replace the old style registration numbers and instead of provincial registration, registration will be on an all Pakistan basis.

The Continuing Reform Agenda

The key challenges facing the Commission today arise mainly from its expanded mandate over recent years and the inconsistency in its regulatory authority in different sectors. While in certain areas the Commission has wide, proactive regulatory powers, in others it found itself restricted and thus forced to be reactive. Over the years, several amendments have been made in the legislation to cater for the Commission's expanded mandate but these did not go beyond providing stop-gap interim measures. The regulatory framework, therefore, needs to be updated so as to effectively address modern-day market issues.

The Commission will continue implementing its reform programme based on international best practices, conforming closely to IOSCO principles. The areas of focus include market/product development; enhancing governance of exchanges and risk management; development of a well-capitalised clearing house; improving the licensing regime for market intermediaries; and strengthening the legal and regulatory framework. The purpose is to mitigate trading risks and corporate failures.

Development of Laws

The Commission has taken up the task of strengthening the laws, rules and regulations and is committed to ensuring that these are reviewed and modernized at all times and are brought in line with developments around the world. The Commission has, therefore, been involved on a number of laws, some of which are in the process of enactment, while others are on the drawing board and in process of eliciting public opinion.

Drafts of the new Securities Act, the Financial Services Commission Act and the Futures Trading Act have been developed and have or are being refined in consultation with stakeholders. The Companies Ordinance, 1984 is being redesigned and reformatted in line with the recommendations and policy guidelines provided by the Company Law Review Commission set up for the purpose.

During the year, the Commission initiated the process of amending the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 as well as the Modaraba Companies and Modarabas (Floatation and Control) Ordinance, 1980.

Acknowledgments

The Commission is aware that notwithstanding its status as the apex regulator of the securities market, it cannot succeed in implementing reforms without taking responsibility for the front-line regulator and for the financial intermediaries. This it cannot do without the support and co-operation of the Government. I would like to take this opportunity to thank the Government, particularly Ministry of Finance, Ministry of Commerce and the Federal Board of Revenue for providing continued support to the Commission in all matters.

I would also like to thank the Policy Board members for their dedication and support.

Various committees and commissions have been constituted at various times during the year by the Commission and I would like to thank the chairmen and the members of each of these committees or commissions for their hard work and dedication for doing a splendid job. The progress made and results achieved would not have been possible without their support. I would like to publicly acknowledge the efforts of Justice (R) Ajmal Mian, for heading the CLRC, Mr. Shaukat Tarin for heading Margin Financing and CFS Mk II Committees, Mr. Shehzad Naqvi for spearheading the Debt Capital Market Committee, Mr. Iqbal Hassan for heading Direct Margins from Financial Institutions Committee, Justice (R) Saleem Akhtar for heading the March 2005 stock market crash task force, and Mr. Riaz A. Malik for heading the Task Force on transfer pricing.

The past year has been tumultuous and the Commission has taken momentous steps in many directions. I would like to take this opportunity to thank the staff and officers of the Commission for their dedication and hard work. They were essentially responsible for the Commission's achievements and I am grateful to all of them.

Razi-ur-Rahman Khan
Chairman
March, 2007

Chapter 3

The Commission

Chairman Mr. Razi-ur-Rahman Khan with Commissioners
Mr. Salman Ali Shaikh and Mr. Rashid I. Malik

Chairman Mr. Razi-ur-Rahman Khan
with Senior Management of the Commission

The Commission

3.1 Organisational Structure

The Securities and Exchange Commission of Pakistan (the Commission) was established in pursuance to the Securities and Exchange Commission of Pakistan Act, 1997 (SECP Act). It became operational on 1 January 1999. Its establishment represents an important milestone in development of the regulatory framework for the corporate sector and the capital market in Pakistan.

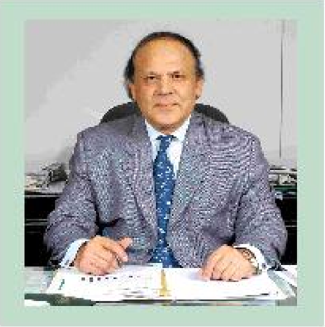
Dr. Tariq Hassan, who had been Chairman of the Commission since August 2003, left the Commission on 11 January 2006. Mr. Razi-ur-Rahman Khan was appointed as Chairman of the Commission on 12 January 2006. Mr. Khan is a Fellow of Institute of Chartered Accountants of England and Wales and possesses extensive experience in finance, banking, corporate sector, mutual fund, brokerage, investment advisory and equity investments. He also has extensive experience of corporate and capital market operations during his career spanning thirty-six years in the private sector and international financial institutions including ANZ Merchant Bank, ANZ Grindlays Bank, JP Morgan, National Investment Trust Limited and Hub Power Company.

3.2 Management Team

The Commission is a collegiate body with collective responsibility. Operational and executive authority is vested in the Chairman who is the Commission's Chief Executive Officer (CEO). He is assisted by Commissioners in overseeing the working of various operational units.

In addition to the Chairman, the Commission presently comprises two Commissioners.

Mr. Salman Ali Shaikh, who is overseeing the Specialised Companies Division (SCD), is a senior emerging markets banker having over thirty-two years experience with various leading banks in the country including Citibank. He was also the Managing Director of an investment bank and part of the senior management team that led the turnaround of Habib Bank Limited.



Mr. Rashid I. Malik oversees the Company Law Division (CLD) and the Securities Market Division (SMD). A Chartered Accountant (CA) by profession, Mr. Malik possesses over thirty years experience in business operation, management, finance and accounting in Pakistan as well as in UK.

During the year under review, Mr. Shahid Ghaffar, who was Commissioner SMD since October 2001, left the Commission.

Mr. Etrat Rizvi completed his tenure as Commissioner on 31 July 2005 and left the Commission. Mr. Rizvi was Commissioner Professional Services and Policy Division.

Mr. Abdul Rehman Qureshi is an Advisor to the Commission. A lawyer by profession, he has been associated with the Commission and the erstwhile Corporate Law Authority (CLA) since 1976. He has served as Commissioner Specialized Companies, Company Law, Enforcement and Monitoring and Support Services Division.

Dr. Mumtaz A. Hashmi is an Insurance Advisor to the Commission; he holds a PhD from England. Before joining the Commission, Dr. Hashmi had managed the Pakistan operations of Royal and Sunalliance, a leading UK composite insurer group, for almost twenty-five years. Dr. Hashmi has served the insurance industry with his technical expertise and has been an important contributor to insurance education and training.

Mr. Muhammad Hayat Jasra, who is presently serving as Secretary to the Commission, has been associated with the Commission and the former CLA for over thirty years.

The following Executive Directors are presently heading the Divisions/Departments:

- Mr. Shafaat Ahmad - Insurance Division
- Mr. Javed K. Siddiqui - Finance and Administration Department
- Ms. Amber Darr - Legal Department
- Mr. Nazir Ahmed Shaheen - Registration Department
- Mr. Akif Saeed - Specialized Companies Division
- Mr. Arshad Javed Minhas - Information Systems and Technology Department
- Mr. Mansur Ahsan - Human Resource and Training Department
- Mr. Zafar Abdullah - Securities Market Division

3.3 Divisions

As of 30 June 2006, the Commission's main operations were being performed by the following Divisions:

- Company Law Division;
- Securities Market Division;
- Specialized Companies Division;
- Insurance Division;
- Professional Services and Policy Division;
- Support Services Division; and
- Chairman's Secretariat and Legal Department assist the Chairman and Commissioners in the discharge of their duties.

Subsequent to the close of the year under review, a re-organization of the Divisions was undertaken pursuant to which, the Professional Services and Policy Division was merged with various Divisions of the Commission so that each Division now has a dedicated Policy Wing within it.

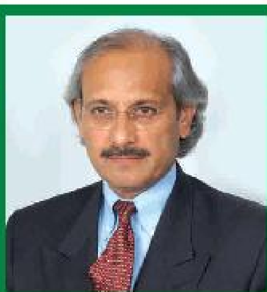
3.4 Securities and Exchange Policy Board

While ensuring full autonomy of the Commission, the SECP Act provides that the Federal Government shall appoint the Securities and Exchange Policy Board (Policy Board) consisting of nine members, of which five shall be from the public sector who will be ex-officio members and four from the private sector. During the year under review, Dr. Tariq Hassan was the Chairman of the Commission and the Policy Board up till 11 January 2006. Thereafter Mr. Razi-ur-Rahman Khan became Chairman of the Policy Board.

The Policy Board provides guidance to the Commission in matters relating to its functions and policy. The Policy Board formulates SECP policies in consultation with the Commission. As part of its functions, the Policy Board advises the Government on issues pertaining to the securities industry and regulation of the corporate sector when so asked by the Government. It also provides opinion on policy matters referred to it by the Government or the Commission.

As of 30 June 2006, the Policy Board consisted of:

Ex-officio Members



Mr. Razi-ur-Rahman Khan
Chairman
Securities and Exchange Commission of Pakistan
(Chairman of the Policy Board)

Mr. Tanwir Ali Agha
Secretary
Finance Division

Syed Asif Shah
Secretary
Commerce Division

Mr. Justice (R) Mansoor Ahmed
Secretary
Law, Justice, Human Rights and Parliamentary Affairs Division

Mr. Tawfiq A. Hussain
Deputy Governor
SBP

Private Members

Dr. Mohammad Zubair Khan
Managing Director
Financial Techniques Internationale

Mr. Zubyr I. Soomro
Managing Director
Citigroup

Dr. Shahida Jaffrey
Vice Chancellor
Sardar Bahadur Khan Women University

3.4.1 Policy Board Meetings

During the year under review, three meetings of the Policy Board were held.

The main focus of the two Policy Board meetings of 2005 was on the volatile stock market situation of March 2005. The report of the Task Force set up to review the situation was presented to the Policy Board, highlighting further action required to be taken by the Commission.

The Policy Board took up various operational matters during the year as per its mandate. Major reviews considered or decisions taken by the Policy Board are given as under:

- approval of Sixth Annual Report of the Commission along with a copy of its Annual Accounts for the year 2004-05 for submission to the Federal Government;
- approval of the registration fee, renewal fee, and rate of penalty under the Clearing House (Registration and Regulation) Rules, 2005;
- consideration of report on securities market situation prevailing in March 2005; review of actions taken by the Commission on the recommendations of the March 2005 Task Force;
- approval of Rs. 10 million as supplementary budget of the Commission for contribution to the President's Relief Fund for earthquake;
- approval of the Commission's new logo;
- approval of the Commission's budget for the Fiscal Year (FY) 2006-07; and
- approval of the Commission's plans to establish a Southern Region Office in Karachi to improve operational efficiency and attract suitably qualified persons to the Commission.

Policy Board meeting in progress under chairmanship of Mr. Razi-ur-Rahman Khan

Chapter 4

Financial Statements

Auditors' Report to the Federal Government of Pakistan

We have audited the accompanying balance sheet of the Securities and Exchange Commission of Pakistan ("the Commission") as at 30 June 2006, and the related income and expenditure account and statements of cash flows and changes in funds for the year then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as, evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Commission as of 30 June 2006 and of the results of its operations and cash flows and changes in funds for the year then ended in accordance with the policies given in note 3.

05 OCTOBER 2006
ISLAMABAD

KPMG TASEER HADI & CO.
CHARTERED ACCOUNTANTS

Balance Sheet
As at 30 June 2006

	Note	2006	2005
		(Rupees '000)	
			Restated
Property, plant and equipment	4	107,571	70,673
Long term investments - held to maturity	5	291,350	298,803
Long term loans to employees	6	2,001	2,937
Current assets			
Advances, deposits, prepayments and other receivables	7	102,326	52,239
Short term investments - held to maturity	8	1,555,473	763,111
Cash and bank balances	9	163,346	153,743
		1,821,145	969,093
Current liabilities			
Accrued and other liabilities	10	(72,147)	(37,863)
Net current assets		1,748,998	931,230
Deferred liability for employees' retirement benefit	11	(24,943)	(16,091)
Net assets		2,124,977	1,287,552
Represented by:			
Funds	12	2,124,977	1,287,552
Contingencies & commitments	13		

The annexed notes from 1 to 21 form an integral part of these financial statements.
These financial statements were approved by the Commission in its meeting held on 05 October 2006.

RAZI-UR-RAHMAN KHAN
CHAIRMAN

RASHID I. MALIK
COMMISSIONER

Income and Expenditure Account
For the year ended 30 June 2006

	Note	2006	2005
		(Rupees '000)	
			Restated
Income			
Fees and other recoveries	14	1,204,066	901,810
Other income	15	130,760	48,559
		1,334,826	950,369
Expenditure			
Salaries, allowances and other benefits	16	331,977	239,269
Operating expenses	17	136,291	91,358
Depreciation		21,493	26,240
Amortization on Pakistan Investment Bonds		7,453	7,482
Bank charges		187	761
		497,401	365,110
Surplus of income over expenditure for the year		837,425	585,259
Surplus of income over expenditure brought forward		177,176	91,917
Accumulated surplus		1,014,601	677,176
Transferred to assets acquisition reserve		(400,000)	(500,000)
Transferred to general reserve		(400,000)	-
Surplus of income over expenditure carried forward		214,601	177,176

The annexed notes from 1 to 21 form an integral part of these financial statements.

RAZI-UR-RAHMAN KHAN
CHAIRMAN

RASHID I. MALIK
COMMISSIONER

Cash Flow Statement
For the year ended 30 June 2006

	2006	2005
	(Rupees '000)	
Cash flows from operating activities		
Surplus of income over expenditure for the year	837,425	585,259
Adjustments for:		
- Depreciation for the year	21,493	26,240
- Amortization of premium on Pakistan Investment Bonds	7,453	7,482
- Provision for pension	20,342	20,230
- Provision for gratuity	11,965	6,791
- Provision for leave encashment	11,114	1,500
- Interest income	(125,812)	(44,292)
- Gain on sale of property, plant and equipment	(2,837)	(2,980)
	(56,282)	14,971
Operating income before working capital changes	781,143	600,230
Increase in loans, advances, deposits, prepayments and other receivables	(17,119)	(12,788)
Increase in accrued and other liabilities	8,931	5,003
	772,955	592,445
Contribution to pension fund	(1,200)	(39,774)
Contribution to gratuity fund	(5,700)	(13,502)
Leaves encashed	(2,269)	(1,028)
Contribution received on account of pension, gratuity and leave encashment	-	960
Contribution on account of civil servant paid to Government of Pakistan	(54)	(333)
Net cash generated from operating activities	763,732	538,768
Cash flows from investing activities		
Purchase of property, plant and equipment	(58,954)	(23,820)
Proceeds from sale of property, plant and equipment	3,400	2,980
Purchase of Pakistan Investment Bonds	-	(99,671)
Short term investments	(792,362)	(763,111)
Interest received on investments and bank deposits	93,787	43,864
Net cash used in investing activities	(754,129)	(839,758)
Net increase/ (decrease) in cash and cash equivalents	9,603	(300,990)
Cash and cash equivalents at beginning of the year	153,743	454,733
Cash and cash equivalents at end of the year	163,346	153,743

The annexed notes from 1 to 21 form an integral part of these financial statements.

RAZI-UR-RAHMAN KHAN
CHAIRMAN

RASHID I. MALIK
COMMISSIONER

Statement of Changes in Funds

For the year ended 30 June 2006

	Grant provided by GOP	Assets acquired from			General reserve	Asset acquisition reserve	Surplus of income over expenditure	Total
		Dissolved Corporate Law Authority	Reappropriation of funds by GOP	Technical assistance from Asian Development Bank				
				(Rupees '000)				
Balance as at 30 June 2004	50,000	2,538	2,433	55,405	400,000	100,000	91,917	702,293
Surplus of income over expenditure for the year	-	-	-	-	-	-	585,259	585,259
Transfer to assets acquisition reserve	-	-	-	-	-	500,000	(500,000)	-
Balance as at 30 June 2005	50,000	2,538	2,433	55,405	400,000	600,000	177,176	1,287,552
Surplus of income over expenditure for the year	-	-	-	-	-	-	837,425	837,425
Transfer to general reserve	-	-	-	-	400,000	-	(400,000)	-
Transfer to assets acquisition reserve	-	-	-	-	-	400,000	(400,000)	-
Balance as at 30 June 2006	50,000	2,538	2,433	55,405	800,000	1,000,000	214,601	2,124,977

The annexed notes from 1 to 21 form an integral part of these financial statements.

RAZI-UR-RAHMAN KHAN
CHAIRMAN

RASHID I. MALIK
COMMISSIONER

Notes to the Financial Statements
For the year ended 30 June 2006

1 Legal Status and Operations

Securities and Exchange Commission of Pakistan ("the Commission") was established as a body corporate under the Securities and Exchange Commission of Pakistan Act, 1997 ("the Act") for the beneficial regulation of capital markets, superintendence and control of corporate entities and for matters connected therewith and incidental thereto.

2 Statement of Compliance and Basis of Preparation

These financial statements have been prepared under the historic cost convention. The accounting policies adopted in the preparation of these financial statements, as stated in the note 3, significantly comply with the applicable International Accounting Standards. However, the Commission is not required to comply with the requirements of the International Accounting Standards.

3 Significant Accounting Policies

3.1 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any except for leasehold land which is stated at cost. Depreciation is calculated on a straight line method to write off the cost of each asset over its estimated useful life without taking into account any residual value. Rates of depreciation are specified in Note 4 to the financial statements. Depreciation on additions during the year is charged from the date of acquisition or the date the asset is available for use and on disposals upto the date of disposal.

Previously, full year's depreciation was being charged in the year of additions and no depreciation was charged in the year the assets were disposed off. This change in estimate has been made prospectively as per the requirement of International Accounting Standard- 16 "Property, plant and equipment". This change has resulted in decreasing the depreciation expense for the year by Rs. 8.9 million with the corresponding increase in written down value of property, plant and equipment.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized and the assets so replaced, if any, are retired. Gains and losses on disposals of property, plant an equipment are included in the income currently.

3.2 Receivables

These are stated at cost less an allowance for any uncollectible receivables.

3.3 Payables

These are carried at cost which is the fair value of the consideration to be paid in the future.

3.4 Employee benefits

Defined contribution plan

The Commission maintains an approved defined Contributory Provident Fund. Commissioners and regular employees are entitled to either provident fund or gratuity, while contractual employees are entitled for gratuity. The Commission's contribution to defined Contributory Provident Fund is charged to income and expenditure account for the year.

Defined benefit plans

The Commission maintains approved funded defined pension plan and approved funded defined gratuity fund. Commissioners and regular employees are entitled for pension. Annual contributions are made to pension and gratuity fund on actuarial recommendations using "Projected Unit Credit Method". The most recent valuation was conducted on June 30, 2006.

The Commission's policy with regard to actuarial gains / losses is to follow minimum recommended approach under IAS 19: Employee benefits. Transitional liability is being recognized on a straight line basis over a period of five years.

Significant assumptions used for acturial valuation were as follows:

Discount rate	10% p.a.
Expected rate of return on plan asset	10% p.a.
Expected rate of increase in salary	10% p.a.

Compensated absences

The Commission recognizes provision for compensated absences payable to employees at the time of retirement/ termination of service. The provision is determined on the basis of last drawn basic salary and accumulated leaves at reporting date.

3.5 Revenue recognition

Fees and other recoveries are recognized on accrual basis other than fees under Insurance Ordinance, 2000 and fee from Non Banking Finance Companies which are recognized on receipt basis.

Penalties are recognized on receipt basis.

Income on held to maturity investments and bank deposits is recognised on time proportion basis.

3.6 Administered projects

The Commission is the executing /implementing agency under various donor assisted projects. Transactions and balances relating to these projects are reported under Administered Projects. The summary information is presented in the notes to these financial statements. Fixed assets acquired in these projects and transferable to the Commission are recognized and are subject to the policies adopted by the Commission for such items.

 FINANCIAL STATEMENTS

3.7 Impairment

The carrying amount of the Commission's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists, the recoverable amount of such assets is estimated and impairment losses are recognized in the income and expenditure account.

3.8 Investments

Investments with fixed or determinable payments and fixed maturity, that the Commission has the positive intent and ability to hold to maturity are classified as held to maturity investments and are carried at amortized cost, less impairment losses. Premium paid on purchase of investments is amortized using effective interest method.

Previously, premium on Pakistan Investment Bonds was being amortized on a straight line basis over the remaining period of the investment. This change in policy has been made to comply with the requirements of International Accounting Standard - 39 "Financial Instruments - Recognition and Measurement. Comparative figures of 2005 have been restated with the full amount of effect of this change. Opening balance of accumulated surplus for the year 2005 has not been restated as the effect was not considered material. Had the policy not been changed, surplus for the year 2006 and the long term investments would have been lower by Rs. 1.18 million and Rs. 1.84 million respectively.

3.9 Provisions

Provisions are recognized when the Commission has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made.

3.10 Financial instruments

Financial assets and financial liabilities are recognized when the Commission becomes a party to contractual provisions of the instrument. These are initially measured at cost, which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value. The Commission derecognizes financial assets and liabilities when it ceases to be a party to such contractual provisions of the instruments.

3.11 Cash and cash equivalents

For the purposes of cash flow statement, cash and cash equivalents comprise cash in hand and bank balances which are carried in the balance sheet at cost.

Notes to the Financial Statements

For the year ended 30 June 2006

(Rupees '000)

4 Property, plant and equipment

Particulars	COST				DEPRECIATION				
	As at 01 July 2005	Of additions / (deletions) during the year	As at 30 June 2006	Rate %	As at 01 July 2005	For the year	(On deletions)	As at 30 June 2006	Book value as at 30 June 2006
Land - Leasehold	1,221	832	2,053	-	-	-	-	-	2,053
Building	33,213	-	33,213	5	8,296	1,659	-	9,955	23,258
Leasehold improvements	14,812	28	14,840	20	13,352	764	-	14,116	724
Office equipment	17,657	2,304	19,961	30	13,994	1,339	-	15,333	4,628
Computers	72,115	22,509 (11,253)	83,371	20	50,524	12,173	(10,690)	52,007	31,364
Furniture and fixtures	21,005	1,015	22,020	10	8,852	2,138	-	10,990	11,030
Vehicles	18,725	32,266 (4,437)	46,554	20	13,057	3,420	(4,437)	12,040	34,514
2006	**178,748**	**58,954 (15,690)**	**222,012**		**108,075**	**21,493**	**(15,127)**	**114,441**	**107,571**
2005	158,509	23,820 (3,581)	178,748		85,416	26,240	(3,581)	108,075	70,673

4.1 The gross carrying amount of fully depreciated office equipment, leasehold improvements, computers and vehicles that are still in use amounted to Rs. 11,996 thousand, Rs. 11,003 thousand, Rs. 2,581 and Rs. 5,233 thousand respectively.

Notes to the Financial Statements
For the year ended 30 June 2006

5. Long term investments - held to maturity

These represent investment in ten years Pakistan Investment Bonds (PIBs) having face value of Rs. 235 million. Profit is receivable semi-annually at the rates ranging between 9% to 12% per annum. Fair value of these PIBs at the year end was Rs. 246.036 million (2005: Rs. 256.169 million). Unamortized premium on these invetments as at 30 June 2006 was Rs. 56.35 million (2005: Rs. 63.8 million).

6. Long term loans to employees-secured, considered good

These represent long term loans given to regular employees and commissioners for vehicle purchase and house repair etc. These are secured against retirement benefits and respective asset. These loans carry mark-up at bank rate. Principal is recoverable on a monthly basis and mark-up after complete recovery of principal.

	2006	2005
	(Rupees '000)	
7. Advances, deposits, prepayments and other receivables		
Current portion of long term loans to employees-considered good	6,294	4,626
Advances	19,922	2,727
Deposits	2,432	2,383
Prepayments	2,084	2,208
Advance tax	3,070	3,070
Fee receivable - considered good	10,510	12,667
Receivable against projects-considered good	6,460	5,145
Mark up receivable on Pakistan Investment Bonds	16,199	13,472
Mark up receivable on short term investments	34,180	3,962
Mark up receivable on loans to employees	268	1,181
Other receivables - considered good	907	798
	102,326	52,239

8. Short term investments - held to maturity

These represent investment in Treasury Bills and fixed deposits which are placed with different banks for the period of one year and three months respectively. Profit is receivable on maturity at the rates ranging between 8.74% to 10.55% per annum.

	Note	2006	2005
		(Rupees '000)	
9. Cash and bank balances			
Cash in hand - imprest		1,226	905
Cash at bank on:			
- current account		(13,126)	61,373
- deposit accounts		175,246	91,465
		162,120	152,838
		163,346	153,743
10. Accrued and other liabilities			
Accrued expenses		12,712	10,035
Accounts payable		347	3,834
Payable to staff retirement funds	10.1	29,272	3,919
Unearned income	10.2	25,866	16,904
Claims payable under Court orders		1,171	1,171
Other liabilities		2,779	2,000
		72,147	37,863

		Note	2006	2005
			(Rupees '000)	
10.1	**Payable to staff retirement funds**			
	Pension fund	10.1.1	21,972	2,884
	Gratuity fund	10.1.2	7,300	1,035
			29,272	3,919
10.1.1	**Pension fund**			
	Reconciliation of the amount recognised in balance sheet is as follows:			
	Net present value of defined benefit obigation		109,614	85,244
	Fair value of plan assets		(60,795)	(59,694)
	Deficit in the fund		48,819	25,550
	Net unrecognised acturial losses		(26,847)	(22,666)
	Net liability recognised in the balance sheet		21,972	2,884
	Movement in net liability recognized			
	Opening net liability		2,884	22,612
	Expense for the year		20,342	20,230
	Payments during the year		(1,200)	(39,774)
	Contribution received on account of pension		-	149
	Contribution on account of civil servant paid to Government of Pakistan		(54)	(333)
	Closing net liability		21,972	2,884
	Charge for the year			
	Current service cost		16,962	14,413
	Interest cost		15,253	8,973
	Expected return on plan assets		(5,969)	(1,268)
	Interest on transferrable amount		(6,728)	(3,882)
	Acturial loss recognized		824	1,994
			20,342	20,230
10.1.2	**Gratuity fund**			
	Reconciliation of the amount recognised in balance sheet is as follows:			
	Present value of defined benefit obigation		40,207	32,661
	Fair value of plan assets		(25,118)	(25,843)
	Deficit in the fund		15,089	6,818
	Net unrecognised acturial losses		(7,689)	(5,584)
	Transitional liability not yet recognised		(100)	(199)
	Net liability recognized in the balance sheet		7,300	1,035
	Movement in net liability recognized			
	Opening net liability		1,035	7,205
	Expense for the year		11,965	6,791
	Contribution received on account of gratuity		-	541
	Payments during the year		(5,700)	(13,502)
	Closing net liability		7,300	1,035
	Charge for the year			
	Current service cost		10,926	6,176
	Interest cost		3,266	1,457
	Expected return on plan assets		(2,584)	(941)
	Actuarial losses recognized		258	-
	Recognized transitional asset		99	99
			11,965	6,791

10.2 This represents amount received in advance from companies under Companies Ordinance,1984.

11. This represents the Commission's liability towards employees' compensated absences which is payable at the time of retirement of eligible employees.

		2006	2005
		(Rupees '000)	
12.	**Funds**		
	Grant provided by the Government of Pakistan	**50,000**	50,000
	Assets acquired from erstwhile Corporate Law Authority	**2,538**	2,538
	Assets acquired from reappropriation of funds by the Government of Pakistan	**2,433**	2,433
	Assets received under technical assistance from Asian Development Bank	**55,405**	55,405
	General reserve	**800,000**	400,000
	Asset acquisition reserve	**1,000,000**	600,000
	Surplus of income over expenditure	**214,601**	177,176
		2,124,977	1,287,552

13. Contingencies & commitments

13.1 The Commission has been made party in the cases filed by Muhammad Hanif Moosa v. Karachi Stock Exchange and others and Shahmir Solangi v. Mr. Salim Chamdia and others under which damages aggregating to Rs.301.4 million have been claimed. The Commission is hopeful that there will be no financial impact of these cases as there is no possibility of decision of these cases against the Commission.

13.2 The Commission has entered into a contract of Rs. 36 million for renovation of its office premises.

		2006	2005
		(Rupees '000)	
14.	**Fees and other recoveries**		
	Fees under Companies Ordinance, 1984	**658,684**	560,586
	Fees under Securities and Exchange Ordinance, 1969	**-**	546
	Fees under Modaraba Ordinance, 1980	**5,274**	14,343
	Fees under Insurance Ordinance, 2000	**42,542**	34,654
	Fees on transactions executed at stock exchanges	**318,657**	270,063
	Brokers' registeration fees	**3,165**	2,595
	Fee from Non Banking Finance Companies	**175,634**	19,013
	Fee from credit rating agencies	**110**	10
		1,204,066	901,810

		2006	2005
		(Rupees '000)	
15.	**Other income**		
	Income on bank deposits	**4,084**	3,120
	Income on Pakistan Investment Bonds	**25,300**	17,590
	Income on short term investments	**95,921**	22,697
	Interest on loans to employees	**507**	885
	Gain on sale of property, plant and equipment	**2,837**	2,980
	Other income	**2,111**	1,287
		130,760	48,559
16.	**Salaries, allowances and other benefits**		
	Basic salary	**140,138**	95,341
	House rent allowance	**76,603**	52,552
	Medical allowance	**12,798**	9,079
	Conveyance allowance	**10,687**	8,241
	Utilities	**13,443**	8,501
	Other allowance	**19,446**	26,770
	Provision for pension	**20,342**	20,230
	Provident fund contribution	**3,588**	2,698
	Provision for gratuity	**11,965**	6,791
	Provision for leave encashment	**11,114**	1,500
	Provision for rest and recreational allowance	**11,853**	7,566
		331,977	239,269

		2006	2005
17.	**Operating expenses**	(Rupees '000)	
	Repairs and maintenance	5,494	4,102
	Traveling and conveyance	24,937	9,058
	Telephone, postage and courier	15,124	10,804
	Utilities	5,270	5,007
	Rent and rates	37,768	39,770
	Printing and stationery	7,831	5,323
	Legal and professional charges	5,987	3,777
	Fees and subscription	1,432	1,584
	Human resource development	3,807	3,387
	Insurance	1,118	724
	Advertisement	5,364	612
	Entertainment	1,011	380
	Audit fee	150	150
	Donations for earth quake relief	10,000	-
	Others	10,998	6,680
		136,291	91,358

18. Financial instruments and related disclosures

18.1 Interest rate risk exposure

The Commission's exposure to interest rate risk and effective rates on its financial assets and liabilities are summarized as follows: -

FINANCIAL INSTRUMENTS	Interest bearing				Non interest bearing	
	Due with in one year		Due after one year			
	2006	2005	2006	2005	2006	2005
	(Rupees '000)					
Financial Assets						
Long term investments	-	-	291,350	298,803	-	-
Long term loans to employees	6,294	4,626	2,001	2,937	-	-
Advances and other receivables	-	-	-	-	93,948	45,405
Short term investments	1,555,473	763,111	-	-	-	-
Cash and bank balances	175,246	91,465	-	-	(11,900)	62,278
Total	1,737,013	859,202	293,351	301,740	82,048	107,683
Financial Liabilities						
Accrued and other liabilities	-	-	-	-	72,147	37,863
Total	-	-	-	-	72,147	37,863
Excess of financial assets over financial liabilities	1,737,013	859,202	293,351	301,740	9,901	69,820

18.2 Credit risk

The Commission believes that it is not exposed to major concentration of credit risk.

18.3 Foreign exchange risk management

Foreign currency risk arises mainly where receivables and payables exist due to transaction with foreign undertakings. The Commission believes that it is not materially exposed to foreign exchange risk.

18.4 Fair value of financial assets

The carrying amount of all financial instruments reflected in the financial statements approximate their fair value except for long-term investments as stated in note 5.

19. Administered projects

19.1 Banking Sector Technical Assistance Project - Anti Money Laundering

The World Bank approved technical assistance for banking sector reforms (TABS) to State Bank of Pakistan (SBP) under Development Credit Agreement. SBP is the executing agency for the said program and one of the components of program, Anti Money Laundering/Financial Fraud, has been assigned to the Commission. An amount of US$ 350,000 has been allocated for this component and out of this, a sum of Rs. 4,094,447 (equivalent US$ 67,398) has been expended upto 30 June 2006. An amount of Rs.2,765,731/- is receivable from World Bank on account of short recovery of funds. The project will be completed by the end of January 2007.

19.2 Capacity Building for Capital Market Development and Corporate Governance

Asian Development Bank ("ADB") has provided a technical assistance under which ADB has to provide US$ 635,000 and Government of Pakistan has to provide Rs. 1.4 million for Capacity Building for Capital Market Development and Corporate Governance. Out of this, a sum of Rs. 5,809,911 (equivalent US$ 95,636/-) has been expended upto 30 June 2006. An amount of Rs.3,694,141/- is receivable from ADB on account of short recovery of funds. The project will be completed by the end of June 2007.

19.3 Capacity Building of the Commission

The World Bank approved a grant of Rs. 27,126,954 (US $ 454,000) to the Commission under Institutional Development Fund. The Commission will contribute US $ 25,000 in cash and provide support, mainly in terms of office space, research support, key personnel and other logistic support to the project. The objectives of this grant are to strengthen the Commission's abilities to build a facilitative and cohesive legal framework and develop independent and high quality professional service providers. A sum of Rs. 609,528/- (equivalent US$ 10,033/-) has been expended upto 30 June 2006. The project will be completed by the end of April 2008.

20. Related party transactions

The Commission operates in an economic regime currently dominated by entities directly or indirectly controlled by the Government of Pakistan ("State-controlled entities") through its government authorities, agencies, affiliates and other organisations. Transactions with these state-controlled entities are not very significant and hence impracticable to quantify for disclosure in these financial statements.

21. General

Figures have been rounded off to the nearest thousand of rupee.

RAZI-UR-RAHMAN KHAN
CHAIRMAN

RASHID I. MALIK
COMMISSIONER

Chapter 5

Chairman's Secretariat

Chairman's Secretariat

5.1 Operational Structure

5.1.1 Structure

The Chairman's Secretariat (CS) coordinates the functioning of the Chairman's office and liaises with external entities, including government agencies and multilateral and international organizations such as the World Bank, Asian Development Bank (ADB) and International Finance Corporation (IFC) and is responsible for the management of donor-funded projects.

5.1.2 Management Team

The CS is headed by a Director who oversees various professionals in the CS for internal audit, monitoring and compliance, external communication and project execution.

5.2 Appellate Bench

The Appellate Bench Registry of the Commission is headed by the Registrar Appellate Bench who works under general superintendence of the Appellate Bench. Administratively, the Registrar reports to the senior-most Commissioner, currently Mr. Salman Ali Shaikh.

During the year, 100 appeals were filed before the Appellate Bench of the Commission, against orders passed by Commissioners, Executive Directors and Directors. The Appellate Bench disposed off twenty-one appeals during this period. Of these, five were accepted, eleven dismissed and the remaining five were either rejected or dismissed as withdrawn.

5.3 Internal Audit

The Internal Audit Department serves as an independent appraisal function within the Commission. It works in accordance with an Internal Audit Manual and Internal Audit Charter, and reports to an Audit Committee comprising Mr. Abdul Rehman Qureshi, Adviser to the Commission as chair and Mr. Mohammed Hayat Jasra, Secretary to the Commission. The Internal Audit Manual outlines the standards, guidelines, and procedures for the Internal Audit Department and encompasses a risk-based audit approach.

During the year, the Internal Audit Department carried out the following major activities:

i. review of payroll processing, petty cash management, revenue collection, travel, procurement and administration functions;
ii. pre-audit of all third party payments at the head office;
iii. monthly review of budget allocations and utilization;
iv. review of the monthly MIS reports and annual accounts of the Commission;
v. post-audit of transactions of the Support Services Division of the Commission; and
vi. analysing the control environment at the Company Registration Offices (CRO).

At the end of each audit assignment, a report of observations and recommendations was submitted to the Audit Committee for review and to the Chairman and the concerned Commissioner and for necessary action by the Department head. Adequate follow-up is maintained to monitor progress in respect of significant audit concerns.

5.4 Monitoring and Compliance

The Monitoring and Compliance Unit in the CS ensures that the problems and concerns of various individuals, investors and corporate entities are duly received, considered and appropriate action taken by the concerned Division of the Commission. Investors and public forward all enquiries or complaints through the online links available at the Commission's website besides utilizing postal services. The Unit provides information and seeks expeditious resolution of complaints and queries through regular follow up.

Status of the complaints, appeals, enquiries and government references received during the period under review is depicted in Table 1.

Since the appointment of Federal Insurance Ombudsman (FIO) in April 2006, the complaints pertaining to the insurance sector are being looked after by the FIO.

The number of complaints received by the CS during the year significantly increased compared to the previous year because investors and shareholders felt encouraged to utilize electronic facilities to lodge their complaints with the Commission. For details see Table 2.

5.5 Media and Publications

During the year under review, the Media and Public Relations Unit maintained a regular liaison with print and electronic media to provide information on the reforms introduced by the Commission. Particularly, regular statements issued to media on the reform process in the capital market helped stakeholders and the general public to get a regular update and generate their feedback. Press briefings by the Chairman were regularly held to update journalists on various reform measures.

Television channels, newspapers and magazines were regularly monitored to manage dissemination of misleading information. Suitable clarifications were issued to counter negative media reports and articles.

5.6 Foreign Relations

5.6.1 Background

The Foreign Relations Unit (FRU) in the CS is primarily responsible for coordinating with multilateral and international organisations.

International cooperation between regulators is necessary for effective regulation of domestic markets. The increasing internationalization of financial activities and the globalization of markets requires that relevant information is available in other jurisdictions.

Further, a considerable number of companies have their securities listed in more than one jurisdiction and a significant part of such issuer's commercial activities take place internationally. Individual investors also invest in foreign markets and securities either directly or through managed funds. An increasing number of collective investment schemes are marketed across jurisdictional boundaries. It is common for scheme promoters, managers and custodians to be located in several different jurisdictions. Similar financial products may be traded on various markets in several countries; moreover, there are many derivatives in which the underlying product or reference price is traded, produced or derived from foreign markets.

As cross-border listing increases in volume and countries, the possibility of fraud, market manipulation, insider trading and other illegal conduct can and does occur more frequently in a increasingly smaller global market aided by modern telecommunications. In these circumstances, effective regulation can be compromised when necessary information is located in another jurisdiction and is not available or accessible to the local regulator.

5.6.2 The Scope of Cooperation

The FRU worked on formulating and putting into place cooperative mechanisms such as memoranda of understanding at the international level to facilitate the detection of cross-border misconduct. The Unit assisted the Commission's coordination with multilateral and international organizations.

Recognising that the form and content of the co-operation will vary from case to case, the FRU developed a Memorandum of Understanding (MoU) template as a precursor to a more formal relationship. The commission believed it important that assistance should be provided not only for use in investigations but also for other types of inquiry as part of a larger international compliance program for the purpose of preventing illicit activities. The need to exchange general information about matters of regulatory concern including financial and other supervisory information, technical expertise, surveillance and enforcement techniques, and investor education was also considered.

The basic characteristics of the memoranda of understanding are:

- identification of the circumstances under which assistance may be sought;
- identification of the types of information and assistance that can be provided;
- safeguards of the confidentiality of information transmitted;
- a description of the permitted uses of the information; and
- various additional areas of technical assistance and co-operation.

5.6.3 Outcomes

The multilateral MoU agreed to between the securities regulators of the South Asian region facilitated the formation of the South Asian Securities Regulators Forum (SASRF) to serve as the forum to promote cooperation, facilitate sharing of information, and encourage harmonization of regulations and policies between South Asian securities regulators. At the first meeting of the SASRF in Islamabad in May 2005, all concerned jurisdictions, other than India, Maldives and Sri Lanka signed the MoU. During the reporting period, the securities regulators of India and Maldives became signatories to the MoU. Sri Lanka was the only country whose signature to the MoU was awaited.

The FRU worked closely with the SMD in preparing the necessary documentation for assessment by the International Organisation for Securities Commissions (IOSCO) as a first step in becoming a signatory to IOSCO's Multilateral Memorandum of Understanding.

Initial exploratory communications took place with regulators in the Middle East, Asia-Pacific, and Australasia regions. Of these, UAE, Oman, Jordan, Thailand, China were at the final stages of signing MoUs with the Commission. The process of discussion was on-going with other countries such as Egypt, Saudi Arabia, Philippines and New Zealand.

5.7 Project Management

The Project Management Unit executes donor-funded projects and assignments of the Commission. During the period under review, a major portion of the Technical Assistance (TA) to the Commission under the Financial (non-bank) Markets and Governance Program of the ADB was completed while an action plan was chalked out to commence activities under the World Bank's Institutional Development Fund Grant.

In an effort to improve corporate governance practices in the country, the Unit also maintained close liaison with the recently established Pakistan Institute of Corporate Governance.

5.7.1 Financial Markets and Governance Program

The Financial (non-bank) Markets and Governance Program (FMGP) was an integrated assistance package of three loans and two political risk guarantee facilities from the ADB to the Government of Pakistan. It primarily seeks to support the development of Pakistan's non-bank financial market through reform, capacity building and international private sector participation.

The main objectives of the FMGP are to:

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

Under the FMGP, the Commission is the executing agency for one of the TA loans to strengthen regulation, enforcement and governance of non-bank financial markets. The total amount of the TA is US$ 4.4 million - of this, ADB will finance US$ 3 million while the remaining portion is counterpart financing.

While the TA mainly involved a consultancy assignment focusing on operations of a wide array of financial intermediaries i.e. stock exchanges, NBFCs and insurance companies, funds were also earmarked for procurement of information technology equipment as well as training of the Commission's officials and market participants.

The consultancy assignment included a detailed review of legal and regulatory framework and addressed key issues of the capital market, such as insider trading, development of new products, risk management and electronic transaction systems for the stock exchanges. Capacity building of the Commission and other market participants also formed a part of the consultancy assignment. The outputs of the consultancy assignment focus on the following four components:

i. upgrading the legal and regulatory framework;
ii. support for development of non-bank financial institutions (NBFI) and capital market, including restructuring of stock exchanges;
iii. capacity building of the Commission, with particular attention to its enlarged mandate for regulation and supervision of capital market, NBFIs, insurance and pensions; and
iv. establishment of sustainable mechanisms for skills development and training.

During the year under review, International Securities Consultancy Limited who had been awarded the contract completed the consultancy assignment that had commenced in August 2004. Several international and domestic consultants were fielded in the Commission's head office.

Over the course of the year, the consultants submitted a number of reports making recommendations for amending the legal structure as well as development of the various sectors. A number of laws were also drafted under the project. These reports were supplemented with presentations to the Commission and were under review and implementation.

The consultancy team also conducted several workshops and seminars on various topics for employees of the Commission as well as market participants.

5.7.2 World Bank Assistance for Capacity Building of the Commission

During the year under review, a Letter of Agreement was signed with the World Bank to provide a grant to the Commission under its Institutional Development Fund facility in the amount of US$454,000. Pursuant to this agreement, the Commission and World Bank agreed on several activities to be carried out under this facility which would be available till June 2008.

The objectives of this grant are to: (i) Strengthen the Commission's abilities to build a facilitative and cohesive legal framework for sectors under its purview through better managing its own resources, enhancing the capacity of its professionals through in-country training and via exposure to international best practice in regulation and supervision of the financial and corporate sector and (ii) Develop independent and high-quality professional service providers and encourage a greater role of self-regulatory organizations (SRO) in the markets.

5.7.3 Anti-money Laundering

The Anti-Money Laundering Unit is also part of the CS and undertakes necessary activities for establishing anti-money laundering (AML) measures in the corporate and financial sectors in Pakistan. It also coordinates and liaises with relevant agencies, both locally as well as internationally, to further promote AML activities in Pakistan. Funding for AML and the combating of terrorist financing has been provided to the Government of Pakistan under the World Bank's TA for Banking Sector Reforms (TABS). A total of US$800,000 was allocated for AML, of which the Commission has a share of US$350,000 for capacity building in enforcement and supervision.

During the year under review, the CS liaised with various agencies to share with them the AML measures instituted by the Commission. Notable achievements were as follows:

- The Commission, along with other stakeholders, underwent mutual evaluation by Asia-Pacific Group in 2004. The evaluation was geared towards assessing Pakistan's legal, law enforcement and regulatory framework in respect of AML and Countering the Financing of Terrorism. The third meeting of the Consultative Group on Anti-Money Laundering (CGAML) was held in Manila, Philippines in July 2006. The CGAML serves as a forum for policy guidance on AML and comprises representatives from public and private sectors. Participants of the third meeting agreed that concerted efforts should be undertaken by all concerned, including the regulatory authorities, enforcement agencies and financial and corporate sectors, in designing an appropriate AML framework. As part of the process, the Commission provided relevant information to the Ministry of Finance and the National Accountability Bureau, who were participants at the meeting.

- The Cabinet approved the draft anti-money laundering bill and forwarded it to the Parliament in August 2005. The country is yet to come under a formal anti-money laundering regime as the necessary legislation is awaiting promulgation by Parliament. The Commission provided detailed comments on the draft anti-money laundering bill that was formulated by the Ministry of Finance and developed in partnership with SBP, the National Accountability Bureau, the Anti-Narcotics Force, and the Law Ministry. Upon promulgation, the completion of this necessary formality, the available World Bank funding would be used for strengthening of the Commission's Fraud Investigation Unit, training of staff, development of necessary guidelines on suspicious transaction reporting in non-banking financial sectors and securities markets.

Chapter 6

Company Law Division

Company Law Division

OBJECTIVE: To promote healthy growth of corporate enterprises, protection of investors and creditors, promotion of investment and development of economy.

6.1 Operational Structure

The Company Law Division (CLD) is entrusted with the responsibility of regulation, monitoring and enforcement of laws pertinent to the corporate sector. The CLD also undertakes monitoring and vigilance of the corporate sector with a view to promoting transparency, accountability and good corporate governance practices, thereby protecting the interests of investors. The CLD operates with the following departments.

6.1.1 Registration Department

The Registration Department is responsible for registration of new companies and ensuring compliance with legal and regulatory requirements by examining statutory returns and accounts filed by companies. It also supervises and coordinates the working of the eight Company Registration Offices (CROs) which are functioning in Islamabad, Karachi, Lahore, Multan, Peshawar, Sukkur, Quetta, and Faisalabad.

The Registration Department comprises of the following Wings:

- Registration, Co-ordination, and Liaison
- Enforcement and Compliance of non-listed companies
- Licenses and Complaints Handling
- Management Information System (MIS)
- Research and Publications

6.1.2 Enforcement Department

The Enforcement Department is responsible for monitoring all listed companies except NBFCs, modarabas, and insurance companies. It examines their published accounts, monitors compliance with applicable laws, rules and regulations, and takes necessary actions against erring companies, their directors, management, and auditors, as appropriate.

6.2 Management Team

Mr. Rashid I. Malik, Commissioner, oversees the CLD. He is a Chartered Accountant from England and Wales and a fellow member of the Institute of Chartered Accountants of Pakistan (ICAP). He also holds a Master's Degree in Economics and possesses over thirty years of professional and working experience of business operation, management, finance and accounting in Pakistan as well as in U.K. Dr. Sajid Qureshi was the Executive Director heading the CLD at the end of the reporting period; he left the Commission subsequent to the close of the year. He was assisted by a Registrar of Companies, four Additional Registrars and two Directors in the Registration Department and CROs. Presently, the Registration Department is headed by Mr. Nazir Ahmed Shaheen.

The Enforcement Department functions under three Directors and a team of professionals comprising of CAs, cost and management accountants (CMA), lawyers, and business graduates.

6.3 Laws Administered

i. Companies Ordinance, 1984
ii. Companies (Appointment of Legal Advisers) Act, 1974
iii. Securities and Exchange Commission of Pakistan Act, 1997
iv. Companies (Appointment of Legal Advisers) Rules, 1975
v. Companies (General Provisions and Forms) Rules, 1985
vi. Companies (Invitation and Acceptance of Deposit) Rules, 1987
vii. Companies (Issue of Capital) Rules, 1996
viii. Companies (Audit of Cost Accounts) Rules, 1998
ix. Companies (Buy-back of Shares) Rules, 1999
x. Companies Share Capital (Variation in Rights and Privileges) Rules, 2001
xi. Single Member Companies Rules, 2003
xii. Companies (Registration Offices) Regulations, 2003

The Registration Department administers the laws pertinent to private companies, unlisted public companies and foreign companies while the Enforcement Department administers laws relevant to listed companies.

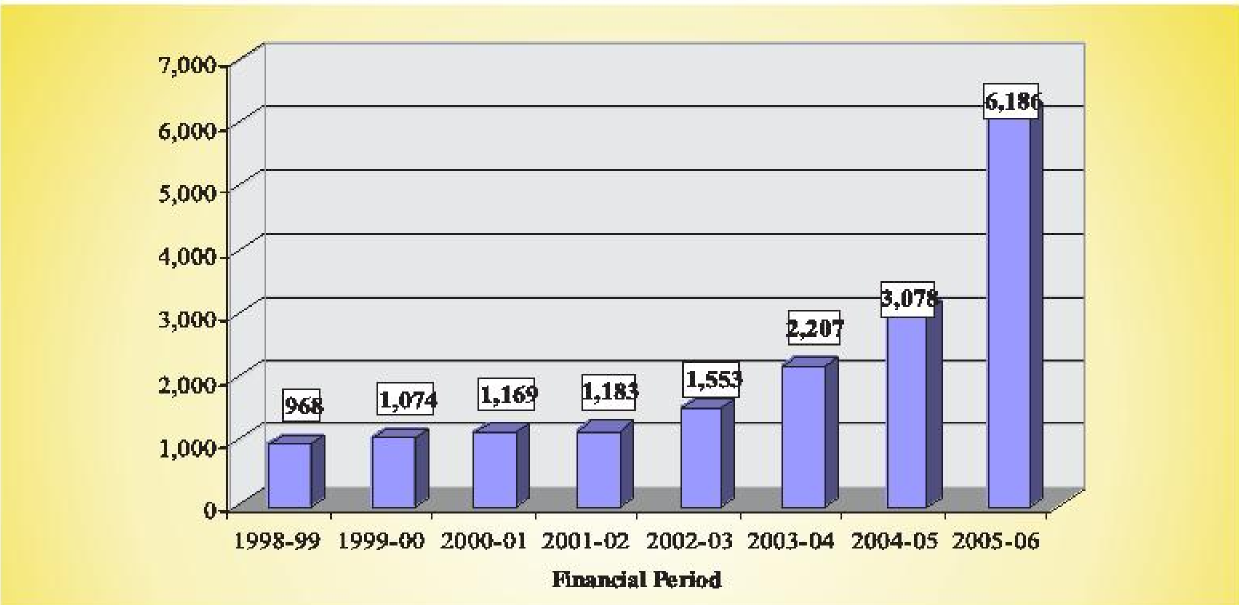
The Enforcement Department also ensures compliance with the following Standards and Codes:

i. Compliance with International Accounting Standards (IAS)
ii. Compliance with International Standards on Auditing (ISA)
iii. Code of Corporate Governance

6.4 Sector Review

The country has witnessed remarkable growth in the registration of companies over the past few years. New incorporations during FY2006, reached 6,186 as compared to 3,078 during the previous financial year (Figure 1), showing a growth of 101 percent.

Figure 1: Companies Incorporated by Financial Year



During FY2006, for the first time in the corporate history of Pakistan, new incorporations within a single month exceeded 1,000 companies i.e., 1,135 companies were registered during May 2006. The monthly breakdown of registrations is given in Figure 2 and the provincial distribution in Figure 3.

Figure 2: Monthly Incorporations in FY2006

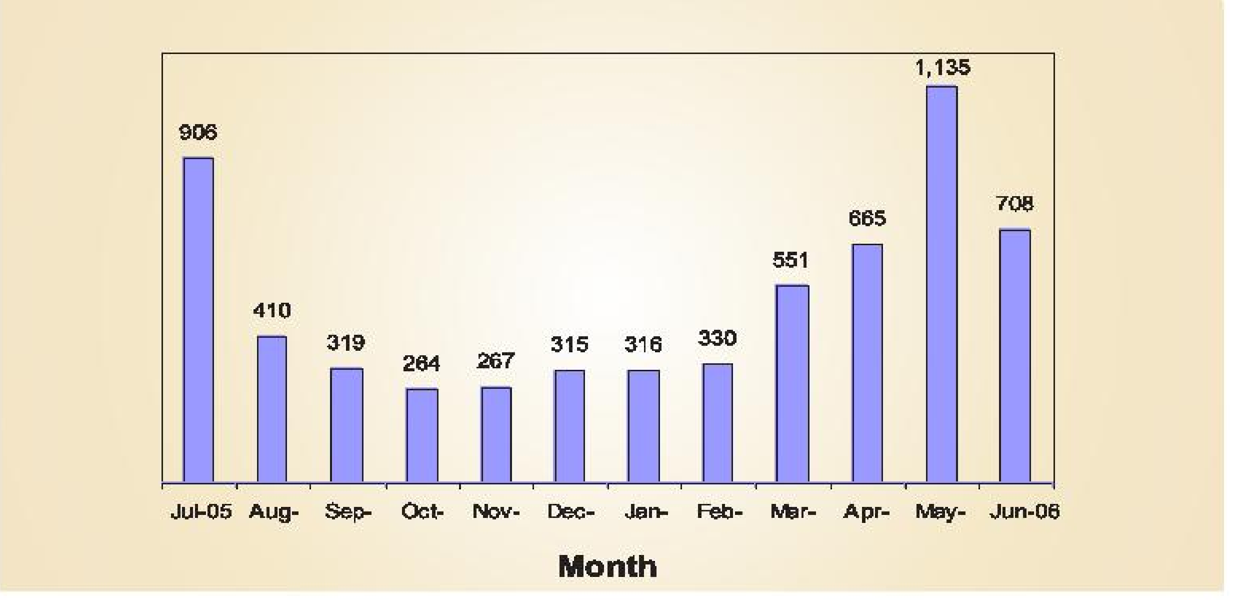
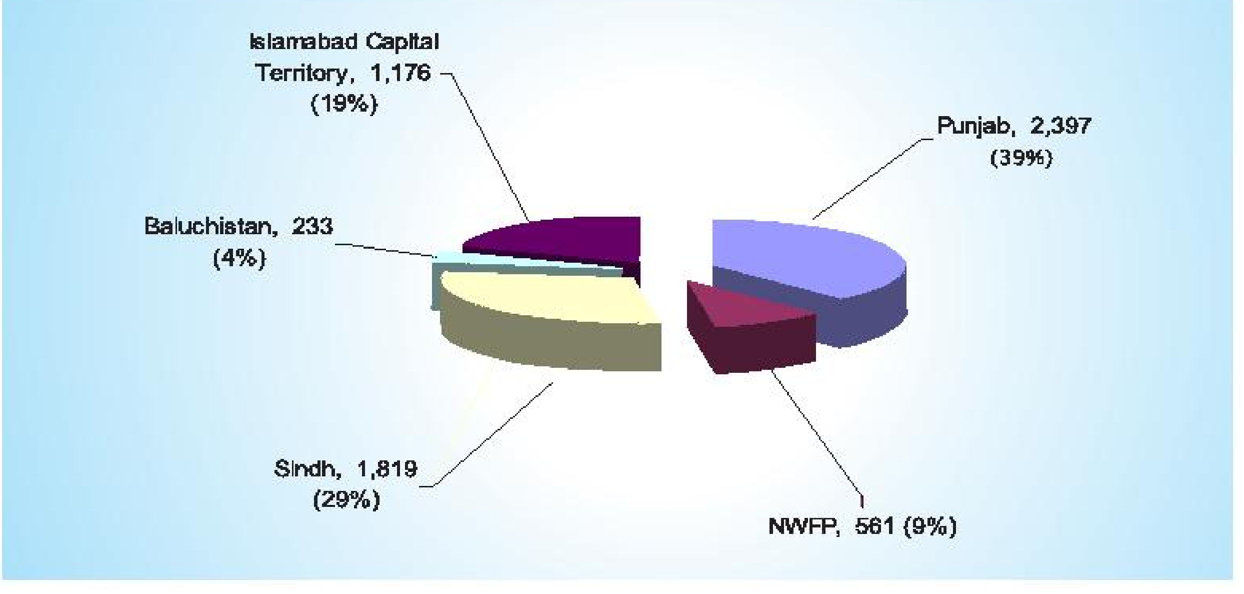


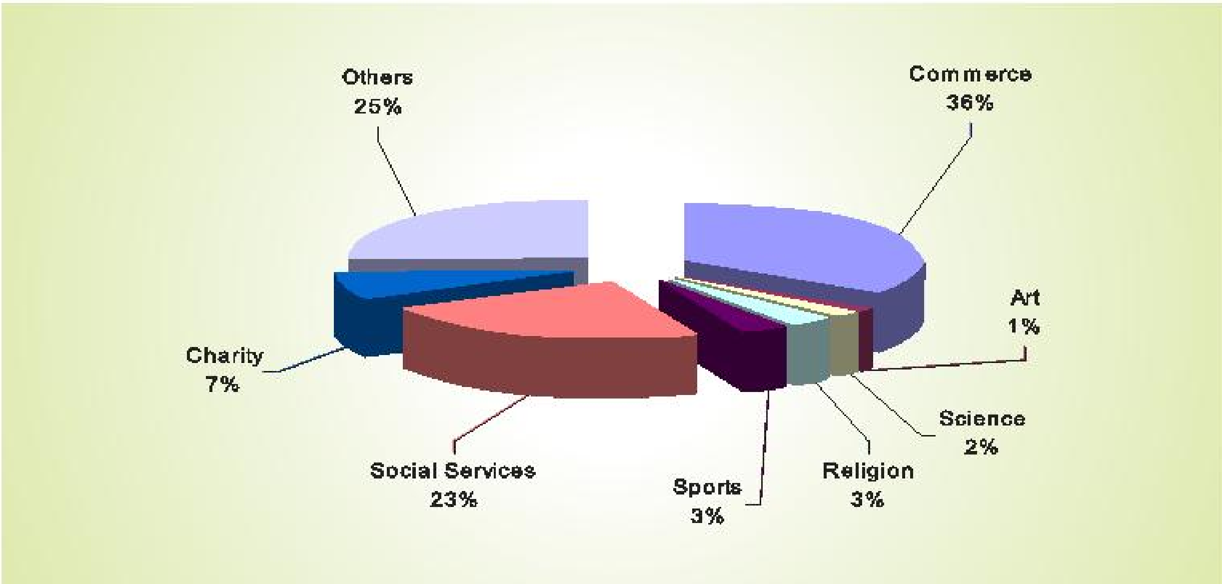
Figure 3: Province-wise Distribution of Companies Registered in FY2006



A landmark achievement was attained in May 2006 when the total portfolio of companies registered with the Commission surpassed 50,000 companies. Total number of registered companies as of 30 June 2006 stood at 50,401, depicting an increase of 11 percent in the overall registered corporate sector portfolio when compared to 45,448 companies registered as of 30 June 2005. Details of types of companies as on 30 June 2006 are given in Table 3; capitalisation in the corporate sector is detailed in Table 4.

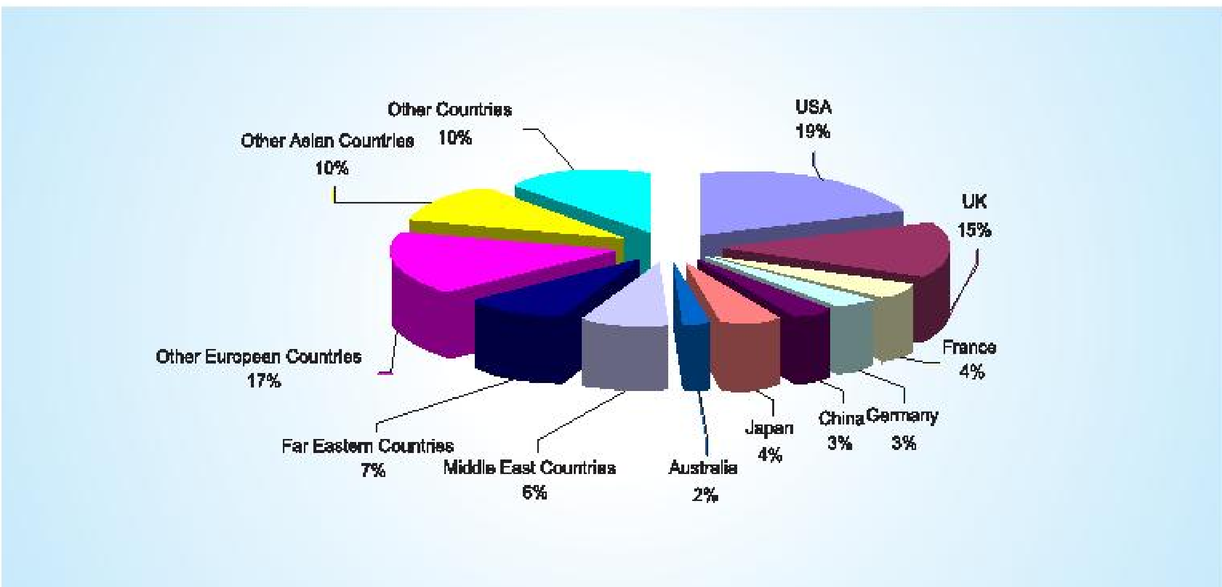
The non-profit sector of any country plays a vital role in various fields such as commerce, art, literature, science, religion, sports, social services, charity, etc. Presently, there are 522 associations not-for-profit working in the country, formed under Section 42 of the Companies Ordinance, having a license issued by the Commission or trade organizations under a license issued by the Ministry of Commerce. The breakdown is given in Figure 4.

Figure 4: Breakup of Associations Not-for-Profit Under Section 42 and Trade Organisations



Foreign companies that are formed or registered in countries outside Pakistan, having a place of business in Pakistan, play an important role in Pakistan's economy. At the end of the year as many as 653 foreign companies were operating in Pakistan. Country wise breakdown of such companies is given in Figure 5.

Figure 5: Breakdown of Foreign Companies by Country of Origin



6.5 Performance Review

During the period under review, the Registration Department undertook various measures for promoting corporatisation in the country, ensuring healthy growth of corporate enterprises, public facilitation, and regulatory compliance by corporations.

Notable measures include (i) the establishment of a facilitation counter at CRO Lahore; (ii) development and publication of new guideline booklets to promote awareness in the general public and corporations; (iii) holding of first ever Promoters' Conference at Lahore; and (iv) provision of e-name facility at CRO Islamabad.

Significant initiatives were also taken to develop and strengthen the legal framework to facilitate corporate entities and to enhance regulatory compliance by registered entities through effective measures. A new project titled "Alert System" was also initiated for efficient monitoring of non-compliant companies.

The Enforcement Department focused on improving compliance with statutory provisions and bringing clarity in the reporting of financial and non-financial information to stakeholders. The regulatory and enforcement actions were directed towards preventing unauthorised inter-corporate financing, non-payment of dividend, irregularities relating to employees' provident fund accounts, and non-compliance of other statutory provisions. Moreover, legal actions were initiated to investigate cases where performance of a company was poor and its affairs were not being managed in accordance with sound business principles, prudent commercial and good corporate governance practices, with the possibility of depriving members of a just return and suffering consistently from losses endangering its solvency.

The Department also reviewed financial statements to ensure that they were prepared in accordance with prescribed financial reporting framework to promote transparency and consistency in their presentation. Compliance with corporate laws and IAS by listed companies has shown improvement as a result of the vigilance and corporate discipline enforced by the Department.

6.6 Development of Laws and Regulations

6.6.1 Amendment in the Companies (General Provisions and Forms) Rules, 1985

An amendment was notified in Rule 14B of the Companies (General Provisions and Forms) Rules, 1985 vide SRO 1014 (I)/2005, dated 28 September 2005 with the approval of the Federal Government. The amendment prescribed that a retired government servant in BPS-19 (or equivalent) or above with at least fifteen years service is also eligible to hold the post of Company Secretary in listed companies.

6.6.2 Guidelines on Information to be Provided

The CLD issued a notification giving guidelines for publishing material information for shareholders by a listed company in case of disposal of the undertaking or sizeable part thereof.

6.7 Regulatory Actions

6.7.1 Amalgamations and Mergers of Companies

The Commission has been facilitating mergers and amalgamations among companies in order to strengthen their capital base and achieve economies of scale. Consolidation within the corporate sector is expected to enhance the capacity to deal with systemic risk and to withstand the global challenges. The Commission ensures that schemes of arrangement proposed by companies are not prejudicial to the interests of minority shareholders. In the event of a scheme of arrangement appearing to be detrimental to the interests of minority shareholders, the concerned Registrar makes a representation before the Court under Section 288 of the Companies Ordinance.

During the year under review, the CLD submitted oral and written representations in respect of eleven cases in various Courts. While decisions in four cases were pending at the close of the year, the following cases (which include some from previous years) were concluded during the year:

- National Packages (Pvt.) Limited into Forhan's (Pvt.) Limited
- Sind Tank Storage Limited into Home Products International (Pvt.) Limited
- Yusuf Textile Mills Limited into Indus Dying and Manufacturing Limited
- Mahmood Power Generation Limited into Mahmood Textile Mills Limited
- Universal Aqua (Pvt.) Limited into Nestle Pakistan Limited
- Qualituff (Pvt.) Limited into Habib Jute Mills Limited
- Ghani Float Glass Limited into Ghani Glass Limited
- Worldcall Multimedia Limited, Wordcall Broadband Limited, Wordcall Communication Limited into Worldcall Telecom Limited
- Yasir Spinning Mills Limited into Sitara Hamza (Pvt.) Limited

6.7.2 Approvals and Permissions

The Companies Ordinance contains a number of provisions that mandate approvals either from the Commission or from the Registrar for effecting the requirements of such provisions. A large number of applications were received during the year and, after due process, necessary approvals were accorded. Relevant details are given in Table 5.

6.7.3 Grant of Licence to Associations Not-for-Profit Under Section 42 of the Companies Ordinance

The Commission undertook measures to facilitate the public in preparation of applications for grant of licence under Section 42 of the Companies Ordinance and for ensuring quick disposal of these applications. Step-wise procedure for obtaining licence from the Commission, model Memorandum and Articles of Association for associations not-for-profit and specimens of documents to be attached with the application, are provided to the applicants; this facilitates the promoters of such associations. During the year under review, sixty-three licences were issued to associations not-for-profit under Section 42 of the Companies Ordinance as compared to twenty-seven in FY 2005.

6.7.4 Capital Issues

During the year, twenty-three applications for issue of capital by companies were disposed off under the following categories:

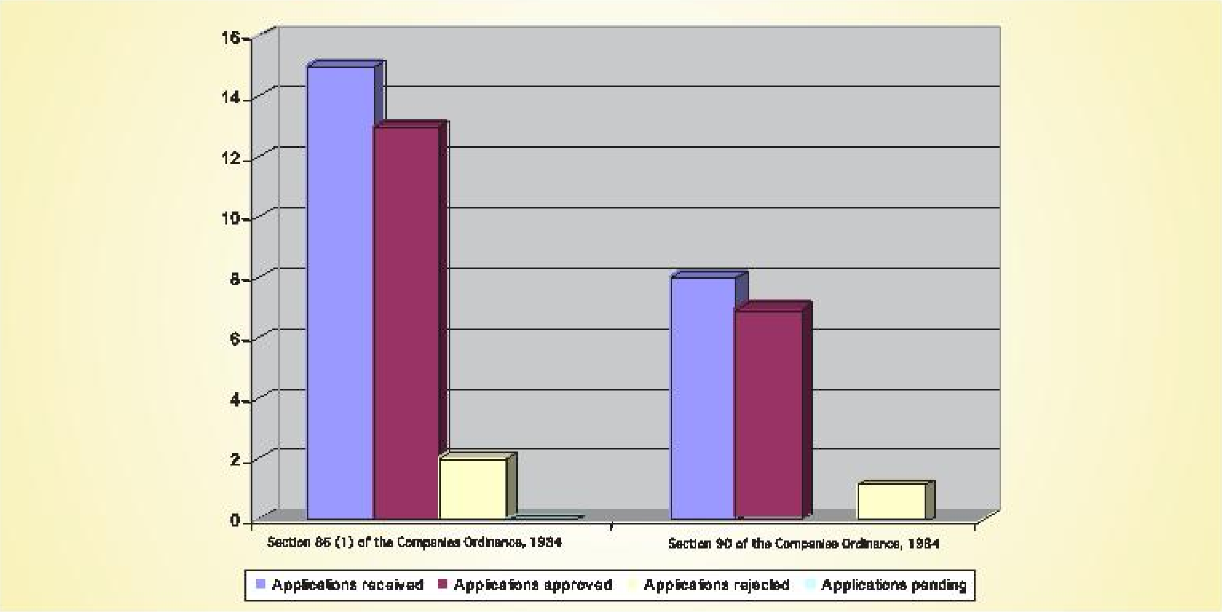
(i) Issue of Shares without Right

During the period under review, fifteen applications were received from companies requesting permission to allow them to issue shares other than rights to the existing shareholders; twelve applications were disposed off by allowing companies to issue shares worth Rs. 4.082 billion against conversion of loans. In one case, approval in principle was granted to issue shares otherwise than right against conversion of US$ 25 million while two applications were rejected.

(ii) Issue of Preference Shares

Under Section 90 of the Companies Ordinance read with the Companies Share Capital (Variation in Rights and Privileges) Rules, 2000, a company limited by shares can issue more than one kind of share capital having different rights and privileges. During FY2006, five listed companies and three private companies made applications for approval to issue preference shares. Approval was given in one case to issue preference shares to existing shareholders amounting to Rs. 6 billion, whereas in three cases, approval was granted to issue preference shares amounting to Rs. 750 million otherwise than rights to certain financial institutions; one application was in process at the end of the reporting period pending the provision of complete information by the company. In case of private companies, approval was granted to issue preference shares amounting to Rs. 93.217 million

Figure 6: Issue of Capital



6.7.5 Applications for Withholding Payment of Dividend

During the year, two companies applied for approval to withhold payment of dividend. After examination of the applications, one company was allowed to withhold payment of dividend till such time the successors submit documentary proof, whereas application of the other company was rejected.

6.8 Monitoring and Enforcement

6.8.1 Action Against Forex, MLM and Pyramid Schemes

The Commission took strict action against illegal and unauthorized forex companies and international brokerage houses that were operating in violation of law. During the reporting period, two cases were brought to the Commission's notice. Preliminary inquiry in these cases was under process and further action in accordance with the law would be taken on completion of inquiry.

During FY2006, the Commission detected four companies which were operating multi-level marketing/pyramid schemes, deceiving the general public by encouraging them to make easy money and earn sky-high returns in a short span of time. Action was taken against them and winding-up petitions against these companies have been filed in the Lahore High Court.

6.8.2 Adjudication of Cases Under the Companies Ordinance

The Registrar of Companies plays a pivotal role in the administration of the Companies Ordinance. However, certain powers of the Registrar are delegated to the heads of the CROs for effective and efficient administration of the Companies Ordinance and facilitating the corporate sector at their doorstep. During the period under review, the CROs and Registrar of Companies adjudicated 4,548 cases for violations under various provisions of the Companies Ordinance; 1,698 cases were disposed off and appropriate actions were taken against errant companies.

6.8.3 Holding of Election of Directors of Gammon Pakistan Limited

The Commission, for the first time in the history of corporate regulation in Pakistan, facilitated the resolution of a corporate conflict by conducting the election of the board of directors of Gammon Pakistan Limited, in compliance with the Lahore High Court's Rawalpindi Bench Consent Order dated 25 October 2005. The election was chaired by Commissioner (CLD) in the company's AGM held on 31 October 2005. The role of the Commission in conducting a fair, transparent election and resolving a long standing dispute was highly appreciated, particularly by the shareholders.

6.8.4 Liquidation of Companies

The Commission disposed off 1,169 cases pertaining to liquidation of companies. Of these, eight cases of winding up were a result of Court orders, while thirty-five involved voluntary winding up and 1,126 companies were struck off from the register of companies under Section 439. These liquidated companies had a paid-up capital of Rs. 728.115 million.

6.8.5 Complaints

During the period under review, 108 complaints were received by the CROs and the Registration Department from shareholders and the general public. Including the 14 pending complaints of the previous year, 109 complaints were disposed off during the year.

The complaints mainly pertained to issues such as non-payment of dividend, mismanagement, not holding the AGM on time or improper holding of meetings, misappropriation, non-registration of transfer of shares, non-issue of share certificates, non-receipt of notices, and improper election of directors.

6.8.6 Examination of Accounts of Listed Companies

During the year, financial statements of listed companies were examined and 168 companies were asked to provide explanations with regard to the various observations made during the review. The following issues were taken cognisance of:

(i) Contents of Balance Sheet

Section 234 of the Companies Ordinance provides that every balance sheet of a company shall give a true and fair view of the state of affairs of the company as at the end of its financial year, and every profit and loss account or income and expenditure account of a company shall give a true and fair view of the profit and loss of the company for the financial year.

During the year, 4 cases of non-compliance with Section 234 of the Companies Ordinance were dealt with and proceedings were in process at the close of the year.

(ii) Surplus Arising out of Revaluation of Fixed Assets

Section 235 of the Companies Ordinance provides that where a company revalues its fixed assets, the increase in the value of such assets shall be transferred to an account to be called "Surplus on Revaluation of Fixed Assets Accounts" and shown in the balance sheet of the company after Capital and Reserves.

During the year, 6 cases of non-compliance with the aforesaid provisions of the Companies Ordinance were dealt with. Of these, two companies were fined and warned to be careful in future in complying with the requirements of law. Proceedings against four companies were dropped on submission of satisfactory replies and ensuring subsequent compliance with law.

(iii) Actions against Auditors

Examination of accounts revealed that, in certain cases, auditors failed to discharge their duties and responsibilities envisaged in the International Standards on Auditing and the Companies Ordinance. During the year, 16 cases of non-compliance with the provisions of the Companies Ordinance against 13 audit firms were dealt with. Of these, 3 audit firms were imposed an aggregate fine of Rs. 120,000 for issuance of auditors report which were not in conformity with the requirements of the Companies Ordinance while proceedings against one firm were dropped with a warning. Proceedings in 12 cases were in process at the close of the year under review.

Proceedings initiated against the auditors of a company who failed to make a report in their tenure to its members were in the process of finalization at the end of the year.

(iv) Investigations into the Management of Companies

The Department initiates investigations into the conduct of managements of companies to identify misstatements in financial statements, continuous deprivation of reasonable return to shareholders, and/or violation of statutory provisions to defraud creditors or members.

During the year, 5 cases of investigation were dealt with. An Inspector was appointed under Section 265 of the Companies Ordinance to explore management practices of one company. Proceedings were dropped against one company subsequent to improved performance. Proceedings against 3 companies, however, were in the process of finalization. Moreover, proceedings initiated against a company under Section 246 of the Companies Ordinance for not providing the requisite information on the Commission's order to the Inspector appointed for investigation of its affairs were in progress at the close of the year.

(v) Irregularities in Provident Fund

The Companies Ordinance requires companies to deposit the employees' and employers' contribution to provident fund in a separate account and has prescribed the instruments in which such funds may be invested.

During the year, 9 cases of non-compliance with the aforesaid provisions were observed. The companies had failed to pay overdue amount of provident fund. An aggregate fine of Rs. 135,000 was imposed with the directions to pay the total outstanding liabilities of the provident fund. Proceedings against 4 companies were in the process of finalization at the close of the year.

(vi) Inter-Corporate Financing

Efforts were made to detect unlawful inter-corporate financing, curb the misuse of funds, and making investments in the company's associated undertakings without obtaining the requisite authorization in violation of Section 208 of the Companies Ordinance.

During the year, 18 cases of non-compliance with the provisions of Section 208 of the Companies Ordinance were dealt with. An aggregate fine of Rs. 3,500,000 was imposed on 7 companies with the directive to make good the default and recover the unauthorised investment/outstanding amount along with mark-up from the associated undertaking. Proceedings in two cases were dropped, the remaining nine were being finalized.

(vii) Enforcing Compliance with Provisions of the Companies Ordinance

During the year, the Department issued the following directions under Section 472 of the Companies Ordinance through notices and orders to make good the defaults of certain provisions of the Companies Ordinance:

- A company was directed to submit audited financial statements along with consolidated accounts for the last three years and arrange to hold the overdue AGMs.
- A company was directed to prepare the accounts for the years 2004 and 2005 in accordance with Section 234 of the Companies Ordinance depicting the true and fair view of its financial position.
- Two companies that failed to pay the amount of Employees Provident Funds were directed to make good the defaults.
- A company whose auditors had qualified their report for the year ended 30 June 2004 was directed to make good the default by removing the auditor's qualifications in subsequent accounts for the year ended 30 June 2005.
- Two companies were directed to place their accounts for quarter ended 30 September 2005 on their website.
- One company was directed to furnish the revised statement of material facts.
- Twelve companies were issued notices to make good the loss/defaults regarding presentation of financial statements in compliance with the legal requirements.

(viii) Non-Compliance with Directives of the Commission

During the year, proceedings against two companies were initiated under Section 495 of the Companies Ordinance for non-recovery of unauthorized investment from associated undertakings and non-payment of entire outstanding amount along with mark-up to the employees' provident fund on directives of the Commission. A fine of Rs. 300,000 was imposed on the chief executive and directors of a company with a directive to recover the entire outstanding amount along with mark-up from the associated undertakings whereas proceedings against the other company were being finalized.

(ix) Engagement of Chief Executive in Activities Competing with the Company's Business

Under Section 203 of the Companies Ordinance, a chief executive of a public company shall not directly or indirectly engage in any business or by a subsidiary thereof, which is of the same nature and directly competes with the business carried on by the company of which he is the chief executive.

During the year, four cases of non-compliance with the aforesaid provisions were dealt with. In two cases, on assurance of both the companies that they do not have the same line of business, proceedings were dropped. However, proceedings against two companies were being finalized.

(x) Appointment of Company Secretary

The Companies Ordinance and the Code of Corporate Governance require companies to appoint a whole time Company Secretary. During the year, 10 cases of violation of Section 204-A of the Companies Ordinance were dealt with. Of these cases, proceedings against nine were dropped on rectification of defaults whereas proceedings against one company were being finalised.

(xi) Lease-out Project without Approval of Shareholders

During the year, three cases of non-compliance with the provisions of Section 196 of the Companies Ordinance were dealt with as the managements of these companies were found to be selling/leasing out assets without the authorisation of the shareholders. A fine of Rs. 700,000 was imposed on the chief executive and directors of one company. Proceedings against two companies were being finalised.

(xii) Disclosure of Information in Case of Special Business

The Companies Ordinance requires that where any special business is to be transacted at a general meeting, a statement setting out all material facts concerning the business should be circulated to shareholders along with the notice of the meeting. The intention is to apprise the shareholders in advance about the details of significant matters to be decided in general meetings.

During the year, 217 cases of special business were examined and 47 such notices of meetings were found to be materially deficient. The Department took the following action:

- 25 companies were directed to circulate the revised notice of meetings inserting non-disclosed information to the shareholders by way of an "Addendum."
- 17 companies were directed to explain the non-disclosed information in the meetings.
- 4 companies were issued show cause notices for failure to comply with the provisions of Section 160 and 161 of the Companies Ordinance. Proceedings in three cases were dropped after submission of satisfactory explanations; however, proceedings against one company were being finalised.

(xiii) Circulation of Quarterly Accounts

The Companies Ordinance requires every listed company to prepare and transmit to the members, the stock exchange, the Commission and the Registrar, a financial statement as at the end of each quarter, whether audited or otherwise.

A total of 1,594 quarterly accounts of listed companies were due to be filed during the year. As many as 1,382 accounts were circulated by listed companies.

During the year, penalties amounting to Rs. 5,820,000 were imposed on the chief executives and directors of twenty-five companies for non/late filing of quarterly accounts as a failure to comply with the requirements of Section 245 of the Companies Ordinance. Proceedings against thirty-three companies were in progress.

(xiv) Direction of the Commission for Holding of AGM

Section 170 of the Companies Ordinance provides that if default is made in holding the statutory meeting, AGM or any extraordinary general meeting in accordance with Section 157, 158 or 159, the Commission may direct the calling of the said meeting.

During the year, six companies were given direction by the Commission to hold overdue AGMs. Further, a fine of Rs. 33,200 was imposed on the chief executive of the company for non-compliance with the direction of the Commission for holding of overdue AGM.

(xv) Non/Late Holding of AGMs

The Department undertook strict monitoring to ensure that listed companies held their AGMs within the prescribed time period. Out of 530 companies being monitored by the Enforcement Department, 462 (87 percent) held AGMs while fifty-five were in liquidation/winding-up and thirteen were in default.

During the year, an aggregate penalty of Rs. 3,160,000 was imposed on the chief executives and directors of fifteen companies for non/late holding of AGMs.

(xvi) Conditions for Declaration of Dividend

The Companies Ordinance requires the payment of dividend only out of profits of the company. Under Section 249 of the Companies Ordinance, dividends shall not be paid out of the profits made from the sale/disposal of any immovable property or assets of capital nature. One case of non-compliance with the aforesaid provisions was noted and relevant proceedings were in progress.

(xvii) Minimum Number of Directors

Under Sections 174 and 180, every listed company shall have not less than seven directors to be elected in a general meeting. Any vacancy occurring among the directors shall be filled up by the directors and the person so appointed shall hold office for the remainder of the term of the director in whose place he is appointed.

During the year, one case of non-compliance with the aforesaid provisions was dealt with wherein the company was working with only five directors elected in the AGM. On commitment of the management to undo the default and a stern warning, the default was condoned and the proceedings dropped.

(xviii) Non-holding of Election of Directors Within Prescribed Period

Under Section 177, on the date of the first AGM of a company, all directors of the company for the time being who are subject to election shall stand retired from office and thereafter all such directors shall retire on the expiry of the term of three years as laid down in Section 180. The directors so retiring shall continue to perform their functions until their successors are elected. The directors continuing to perform their functions shall take immediate steps to hold the election of directors and in case of any impediment, report the circumstances of the case to the registrar within fifteen days of the expiry of the term.

During the year, one case of non-compliance with the aforesaid provisions was dealt with wherein the directors of a company had failed to hold election after expiry of the period as provided under Section 180 and had not reported impediment in this respect to the Registrar. Proceedings in the matter were in progress at the end of the year.

(xix) Providing Unlawful Corporate Guarantee

During the year, three cases of non-compliance with the provisions of Section 195 of the Companies Ordinance regarding guarantee/loan to directors were dealt with. It was noticed that a company made loans to directors without approval of the Commission and did not file the particulars thereof with the concerned Registrar, whereas another company gave a guarantee to its associated company on behalf of borrowing company to secure the loan and in a third case, a company gave corporate guarantee to a commercial bank on behalf of its associated company in contravention of the aforesaid provisions of the Companies Ordinance. In two cases, proceedings were dropped with warnings. However, proceedings against one company were being finalised

(xx) Making False/Incorrect Statements in Documents Required Under the Companies Ordinance

During the year, eleven cases of misstatement by companies were dealt with. These cases were disposed off as given below:

(a) Proceedings against eight companies were initiated wherein these companies made misstatements before the shareholders at the time of approval of right issues and utilized the proceeds of right issues otherwise than the purpose described to the shareholders. An aggregate penalty of Rs. 420,000 was imposed on the directors including the chief executives of two companies. In another case, a company was directed to submit report on balancing, modernisation, and replacement of machinery after conducting due diligence. Proceedings against five companies were in progress at the end of the year.

(b) A fine of Rs. 30,000 was imposed on the chief executive and a director of a company for making a misstatement on having the annual accounts audited.

(c) Proceedings initiated against a company for making misstatement in the prospectus were under progress at the end of the year.

(d) Proceedings against a company were initiated as its Director's Report did not contain information and explanation regarding reservations contained in the Auditors' Report as required under the provisions of law. Proceedings in the matter were in progress at the end of the year.

(xxi) Non-circulation of Abstract on Increase in Chief Executive's Remuneration in the Directors' Report

During the year, two cases of default of the provision of Section 218 of the Companies Ordinance regarding non-circulation of abstract on increase in chief executive's remuneration in the Directors' Report were identified. After due process, a penalty of Rs. 5,000 was imposed on a company whereas proceedings in the other case were dropped on assurance to comply with the requirements of law in future.

(xxii) Investors' Grievances

During the year, the Department resolved 2,253 out of 2,297 complaints of various shareholders, whereas comments on the remaining forty-four complaints were sought from the concerned companies. The complaints mainly related to non-receipt of dividend warrants, non-encashment of dividend warrants, delay/non-transfer of shares, issue of duplicate shares, non-receipt of annual and interim accounts, wrongful deduction of Zakat, and other miscellaneous complaints relating to non-holding of AGM, non-circulation of notice of meeting etc.

During the year, six cases of non-compliance with the provisions of the Companies Ordinance were dealt with for non-/late transfer of shares, non-issuance of duplicate shares and non-payment of dividend within the prescribed period. An aggregate fine of Rs. 130,000 was imposed on the chief executives and directors of two companies whereas proceedings in one case were dropped when the company rectified the fault. However, proceedings against three companies were being finalised.

(xxiii) Liquidation of Companies

During the year, thirteen cases under Section 305 of the Companies Ordinance were dealt with wherein the concerned Registrars had sought sanctions of the Commission for filing of winding-up petitions in the respective High Courts against companies which had committed the defaults of not holding two consecutive AGMs or suspended its business for more than one year. The Commission accorded sanctions in five cases to the Registrars concerned for filing of winding-up petitions in the Honourable High Courts whereas proceedings against one company were dropped. Proceedings against seven companies were being finalised.

6.8.7 Examination of Annual Accounts of Non-listed Public Companies and Associations Not-for-Profit

The Registration Department carried out the examination of annual accounts of 646 non-listed public companies and associations not-for-profit during the period under review. Of these, show cause notices, warning notices, and explanation letters were issued to 399 errant companies for non-compliance of the statutory requirements, while 244 accounts were found in order.

6.8.8 Irregularities in Utilisation of Security Deposits Received from Dealers

During the year, five cases of non-compliance with the provision of Section 226 of the Companies Ordinance regarding money received as security or deposit were dealt with. Of these, one case was decided and a penalty of Rs. 5,000 was imposed on the chief executive of the company. Proceedings against four companies were being finalised.

6.9 Developmental Activities

6.9.1 Public Facilitation Initiatives

(i) ITCN Asia 2005 Exhibition

The CRO Karachi participated in the ITCN Asia 2005, held on 9-10 August, 2005, on behalf of the Commission continuing the precedent of having meaningful presence in such exhibitions since 2000. During the course of the exhibition, instant assistance on company incorporation was provided and regulatory issues were explained. A fast-track Company Incorporation Desk for 'on-the-spot' incorporation of companies was established. The Commission's guidance booklets were widely distributed among the participants and the visitors in order to create public awareness. This effort of the Commission was highly appreciated by local and foreign delegates.

(ii) Seminar for Promoters of Companies

To encourage a corporate culture in the country, the Commission held a seminar for promoters of newly incorporated companies on 30 March 2006 at the Lahore Chamber of Commerce and Industry. The objective of this seminar was to disseminate information about the benefits of corporatization and to facilitate the promoters and management of companies in compliance with post-incorporation statutory requirements. The seminar was the first one in the series and similar programmes are planned for other cities on a regular basis. It is envisaged that such endeavours will go a long way in the awareness and development of corporate compliance.

(iii) Establishment of a Facilitation Centre at CRO Lahore

To facilitate the general public and the corporate sector, the Commission established a Facilitation Centre at CRO Lahore in November 2005. The various counters of the Centre - Help Counter, Special Services Counter, Receipt Counter and Dispatch Counter - extend specialized services in state-of-the-art facilities in a timely and effective manner. The Centre provides an investor friendly environment and helps in promoting awareness and assistance on corporatization of businesses.

(iv) Publication of Guideline Booklets

To develop public awareness on various statutory matters and encourage best practices and corporate governance in the management of corporate entities, the following guide booklets have been published and placed on the Commission's web site:

- Guidelines on Quarterly Accounts
- Guidebook on Issue of Preference Shares
- Guidebook on Issue of Shares Otherwise than Rights
- Conversion of Status of Company
- Guide on Investigation into the Affairs of a Company
- Guide on Shareholders Rights
- Foreign Companies' Guide
- Winding-up and Dissolution of Companies Guide
- Translated version of Promoters' Guide in Urdu

(v) Placing of Memorandum and Articles of Association on the Commission's Website

The Commission has developed and placed on its website, revamped, simplified and standardised model memorandum and articles of association for the following sectors for the convenience of public and promoters of companies:

- Textile Composite
- Textile Spinning
- Textile Allied and Others
- Power Generation
- Synthetics and Rayon
- Jute
- Fishing
- Livestock
- Poultry and Breeding

The Commission plans to develop and provide such model memorandum and articles of association for other sectors as part of its goals for FY2007.

(vi) Meeting with the Federation of Pakistan Chambers of Commerce and Industry

A meeting between the Federation of Pakistan Chambers of Commerce and Industry, and the Commission was held in December 2005 to discuss matters relating to the licensing, formation, and incorporation of trade organizations and the renewal of their membership.

Subsequently, a committee was constituted by the Ministry of Commerce vide notification No. 12 (1)/2006-T.O. dated 7 April 2006, to examine, review, and suggest amendments in the Trade Organization Ordinance, 1961, in consultation with business representatives and other stakeholders. The Commission actively participated in various meetings of this Committee in which the terms of reference were finalized and the recommendations from different trade organizations were received.

(vii) Liaison with SMEDA for Corporatisation of SMEs

In order to promote corporate growth and extend the benefits of corporate status to small and medium enterprises, a collaborative strategy was prepared to promote mutual collaboration and co-ordination with SMEDA in the reform process.

(viii) Abolition of Stamp Duty in the Province of Sindh

During the reporting period, the Commission succeeded in its efforts to abolish the stamp duty on registration of memorandum and articles of association levied by the province of Sindh. Previously, on the recommendation of the Commission, the governments of Punjab and NWFP had waived off the entire stamp duty on the memorandum and articles of association.

The Commission continued its efforts with the Government of Baluchistan and the Islamabad Capital Territory to abolish stamp duties.

6.9.2 Electronic Name Availability Service

To facilitate the company incorporation process, an electronic interface for name availability for reservation of company name was deployed at CRO Islamabad. The electronic facility allows an applicant to search and apply for the proposed company name through the Name Reservation Request available on the Commission's website and enables promoters to electronically reserve a company name.

This facility is presently operational in Islamabad though expansion of the service to other CROs is planned for FY2007.

6.9.3 Meeting With In-charges of CROs

A meeting of the heads of the Commission's eight CROs was held on 22 September 2005 to discuss the reforms implemented by the CROs and formulate the way forward to improve their overall working and functioning to implement the second generation reforms.

6.10 Administrative Appeals

During the last year, 100 appeals were filed before the Appellate Bench of the Commission against orders passed by Commissioners, Executive Directors and Directors. The Appellate Bench disposed off twenty-one appeals during this period. Of these, five were accepted, eleven dismissed while the remaining five were either rejected or dismissed as withdrawn.

6.11 Judicial Appeals

During the year, three appeals were filed against two orders and one show cause notice of the Commission in the respective Honourable High Courts. These were pending at the end of the year.

Two appeals were filed in the Honourable High Court against the order of acquittal passed by the Court of IIIrd Additional Sessions Judge Karachi South in a complaint filed by the Commission against the chief executive and a director of a company who had violated the provisions of the Companies Ordinance by not holding AGMs and not laying balance sheet and profit and loss accounts therein for the years 1996 to 1999. The decisions of the Court were pending at the end of the reporting period.

6.12 Annual Plan

6.12.1 Work in Progress

(i) Extension of Code of Corporate Governance to Associations Not-for-Profit

With a view to extend the Code of Corporate Governance to associations not-for-profit, the Commission has drafted the Association Not-for-Profit (Licensing and Corporate Governance) Rules under Section 42 of the Companies Ordinance which contain the regulatory framework, requirements and specifically the provisions of the Code of Corporate Governance proposed to be applicable on the associations not-for-profit. During the period under review, views/comments from well-known legal consultants were taken into consideration and a final draft prepared.

(ii) Rules for Housing and Real Estate Development Sector

In order to closely monitor the real estate development sector, the Department is framing the draft Housing and Real Estate Development Companies (Establishment and Regulation) Rules which lay down comprehensive regulations and regulatory framework for registration of companies in housing and real estate development sector and provide for the post-incorporation compliance and legal requirements. During the period under review, a draft of these Rules was bieng finalised taking into consideration the views/comments from renowned legal consultants.

(iii) Draft Public Sector Companies (Corporate Governance) Rules

In order to extend corporate governance practices to public sector companies, draft Public Sector Companies (Corporate Governance) Rules have been formulated. At the end of the reporting period, views and comments from well-known legal consultants had been received and were being taken into consideration.

(iv) Publication of Guideline Booklets

The following booklets are in the process of publication:

- Complaints Lodging and Redressal Guide
- Translation of Promoters' Guide in other languages
- Licensing and Registration of Associations Not-for-Profit
- Company Name Availability Guide

(v) Off-the-Shelf (Readymade) Company

The Commission plans to introduce a new concept of ready-made off-the-shelf company in the country. A 'shelf company' would be a previously-incorporated company which would be available for purchase 'off-the-shelf'. The main benefit would be its readily available status and that the buyer would not have to spend much time setting it up. A concept paper on off-the-shelf company detailing the modus operandi and expected benefits of the idea was prepared. An awareness development campaign is proposed to get feedback on the concept from various quarters.

6.12.2 Automation

(i) Online Registration of Companies and Filing of Returns

Online Registration and Filing of Returns will make it possible for registered corporate entities to do online filing, and new companies to register online. The system is expected to be operational soon.

(ii) Alert System

Presently, the Registration Department and the CROs ensure compliance in respect of statutory returns manually, a time consuming process given the number of registered companies. An automated alert system is being developed to facilitate companies in filing of statutory returns within specified time and provide timely information to the Commission regarding non-filing of statutory returns by companies. The system is expected to enhance monitoring of companies in a time-saving and cost-effective manner.

6.12.3 Future Plans

(i) Strengthening of Code of Corporate Governance

The Enforcement Department monitored compliance with the Code of Corporate Governance by listed companies. While at present, compliance with the Code is voluntary, it is proposed that its compliance must be made mandatory over time. This will require a review of the extent of compliance achieved and the consequent improvement to the corporate governance and compliance environment, leading to recommendations for reform and further revisions of the Code. The Enforcement Department would collate the compliance reports and review the recommendations for further implementation.

(ii) Fraud Investigation Unit

A Fraud Investigation Unit was established at the Commission in August 2005 to target the prevention and detection of white-collar financial crimes. Identification of such crimes is largely a function of the Enforcement Department, which reviews the financial reports and identifies areas of further inquiry. Close coordination with the FIU and synergetic development in this area would be a key second-generation reform area for the Enforcement Department.

(iii) Strengthening Enforcement

For the Enforcement Department to accomplish its objectives and establish the image of the Commission as a regulatory body fully cognisant of its duties, some key measures are called for to address present weaknesses. These measures are incorporated into the Annual Work Plan 2006-07 and are listed below:

(a) Monitoring of Auditors: It is the duty of the auditors to bring to the notice of the members the major breaches observed in financial statements. The auditors are responsible to the shareholders and are required to give a report on the accounts and books of accounts after conducting the audit in accordance with the prescribed procedures and requirements of the Companies Ordinance and Standards.

(b) To ensure that auditors of listed companies perform their duties diligently and discharge their responsibilities effectively under the statute, a database of audit firms would be developed. This would be used as a tool to achieve effective monitoring. This will not only improve their performance but will also be helpful to establish effective enforcement of laws and accounting standards.

(c) Databases: Currently there is no repository of historical financial data and this results in a cumbersome exercise to collate company financial data for previous years; moreover, not all non-financial information is available. The availability of a financial information database would be helpful and vital for monitoring and tracking the performance of companies over the years. Both financial and non-financial information would be fed in the database and the application of relevant analytical tools would support the work of the Enforcement Department.

(d) Intelligence-led Enforcement: There has been a global increase in the prevalence of corporate fraud in recent years and corporations have developed new ways and means to hide their wrongdoings. The Enforcement Department has to play a proactive role in developing procedures to prevent and detect frauds in a timely manner. Financial analysis is also required to identify and detect fraud or fraud risk.

(e) In-house Investigation: The Commission proposes to conduct investigation by in-house investigation officers to ensure a result-oriented investigation under Section 263 and 265 of the Companies Ordinance. Moreover, the inspection of records of listed companies will be done whenever required as a proactive measure to improve compliance and to take up limited scope investigations under Section 231 of the Companies Ordinance. This shall support efforts for detection of frauds and malpractices by listed companies.

Chapter 7

Securities Market Division

Securities Market Division

OBJECTIVE: *To develop and promote the capital markets in Pakistan as a fair and modern market providing for investor protection and adequate risk management.*

7.1 Operational Structure

7.1.1 Structure

Securities Market Division (SMD) is responsible for developing, regulating, and monitoring the capital market of Pakistan. SMD is entrusted with instituting appropriate regulatory reforms to develop and promote the market, enhance transparency, promote effective risk management and ensure good governance at the stock exchanges, commodity exchange, central depository company, and national clearing company to strengthen investor confidence. It is responsible for regulation of all aspects of the capital market including licensing and coordination, regulation of secondary market, public offerings, market intermediaries and market surveillance.

SMD regulates the primary and secondary market activities, as well as market intermediaries with the objective of protecting investors through registration, surveillance, investigation, enforcement, compliance and rule making. SMD processes and grants approvals of prospectuses for public offerings of both debt and equity securities and performs the oversight function for monitoring the working and activities of commodity exchange and other players in the capital market. SMD is divided into following Wings:

- Stock Exchanges, Depository and Clearing and Policy and Regulation Wing
- Monitoring and Surveillance and Beneficial Ownership Wing
- Capital Issues Wing
- Commodity Exchange Wing
- Brokers Registration and Inspection Wing
- Investor Complaints Wing

7.1.2 Management Team

Mr. Rashid I. Malik, who joined the Commission in January 2005, oversees SMD. He is a Chartered Accountant from England and Wales and a fellow member of ICAP. He also holds a Master's Degree in Economics and possesses over thirty years of professional and working experience of business operation, management, finance and accounting in Pakistan and U.K.

During the year, Mr. Shahid Ghaffar resigned as Commissioner, after serving the Commission for almost five years.

Mr. Arif Mian, a Chartered Accountant by profession, was the Executive Director heading SMD as at the close of the year under review. He was assisted by various professionals in the Division, which include lawyers, chartered accountants, financial analysts, management accountants, and business administration experts.

Subsequent to the close of the year, Mr. Arif Mian left the Commission and Mr. Imtiaz Haider was promoted as Executive Director of SMD.

7.1.3 Laws Administered

i. Securities and Exchange Ordinance, 1969
ii. Companies Ordinance, 1984
iii. Listed Companies (Substantial Acquisition of Voting Shares and Take-overs) Ordinance, 2002
iv. Securities and Exchange Commission of Pakistan Act, 1997
v. Central Depositories Act, 1997
vi. Securities and Exchange Rules, 1971
vii. Companies (General Provisions and Forms) Rules, 1985
viii. Central Depository Companies (Establishment and Regulations) Rules, 1996
ix. Companies (Issue of Capital) Rules, 1996
x. Companies (Buy Back of Shares) Rules, 1999
xi. Companies (Asset Backed Securitisation) Rules, 1999
xii. Share Capital (Variation in Rights and Privileges) Rules, 2000
xiii. Brokers and Agents Registration Rules, 2001
xv. Stock Exchange Members (Inspection of Books and Records) Rules, 2001
xiv. Members' Agents and Traders (Eligibility Standards) Rules, 2001
xv. Balloters, Transfer Agents and Underwriters Rules, 2001
xvi. Public Companies (Employees Stock Option Scheme) Rules, 2001
xvii. Margin Trading Rules, 2004
xviii. Clearing Houses (Registration and Regulation) Rules, 2005
xix. Commodity Exchange and Futures Contracts Rules, 2005

7.2 Capital Market Overview

During FY2006, the Karachi Stock Exchange 100 Shares Index (KSE-100 index) increased by 34 percent and closed at 9,989.41 on 30 June 2006. The KSE-100 index touched its all-time high level of 12,273.77 on 17 April 2006. Market capitalisation of the Karachi Stock Exchange (KSE) surged to Rs. 2,801.18 billion (US$ 46.69 billion), an increase of 35.44 percent over FY2005's market capitalisation of Rs. 2,068.19 billion (US$ 34.47 billion). For KSE performance at a glance see Table 6.

While the stock markets remained buoyant in Pakistan during the first three quarters of FY2006, the last quarter witnessed a sharp decline.

Figure 8: KSE-100 Index and Daily Turnover at KSE (July 2005 – June 2006)

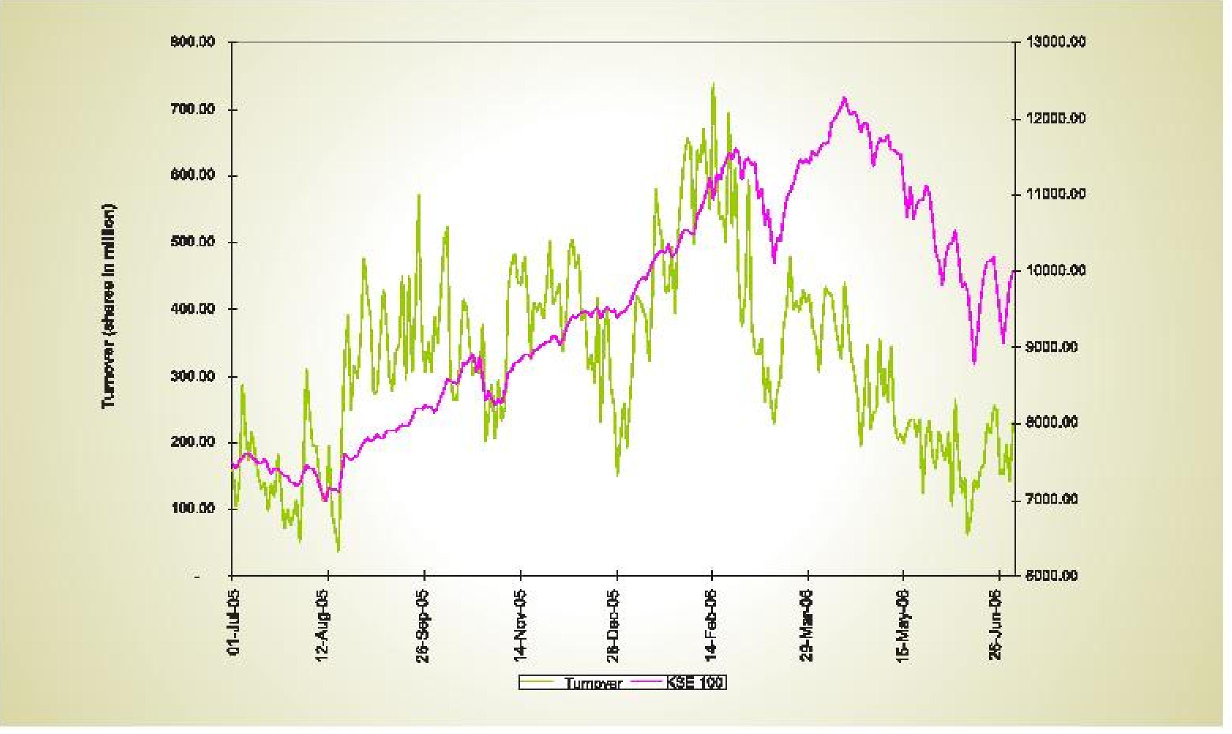


Figure 9: KSE Market Capitalisation and Daily Traded Value (July 2005 – June 2006)

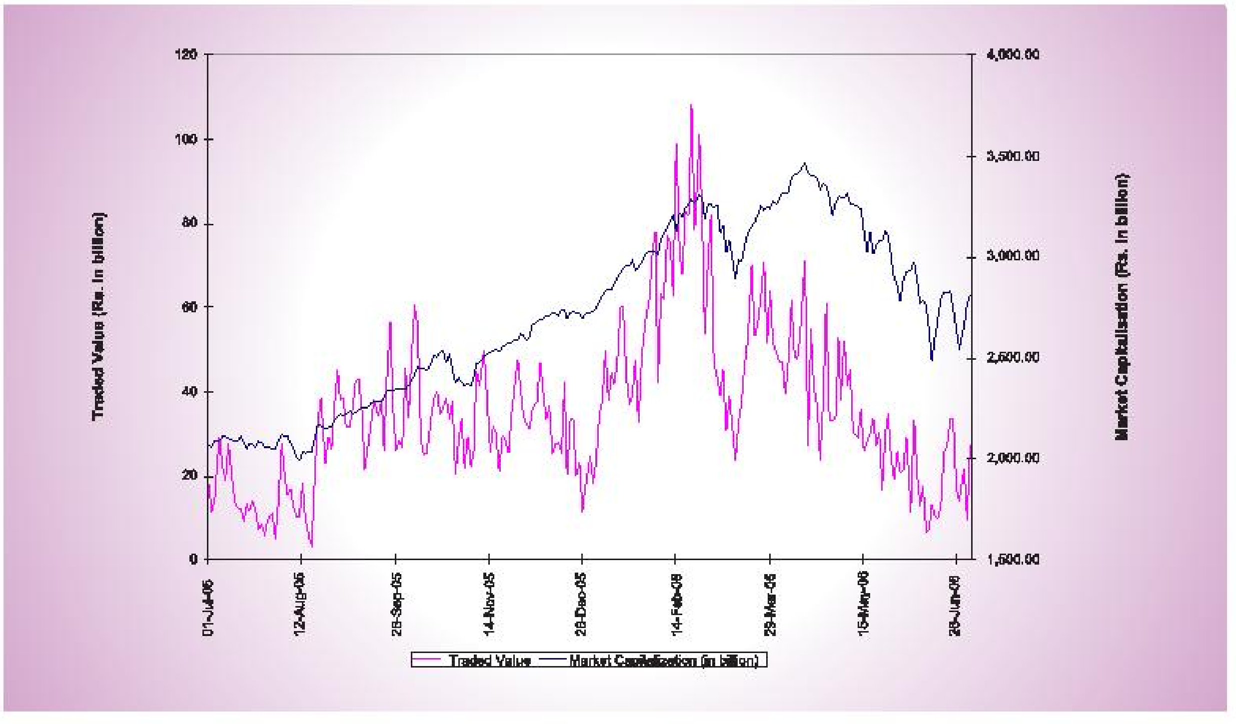
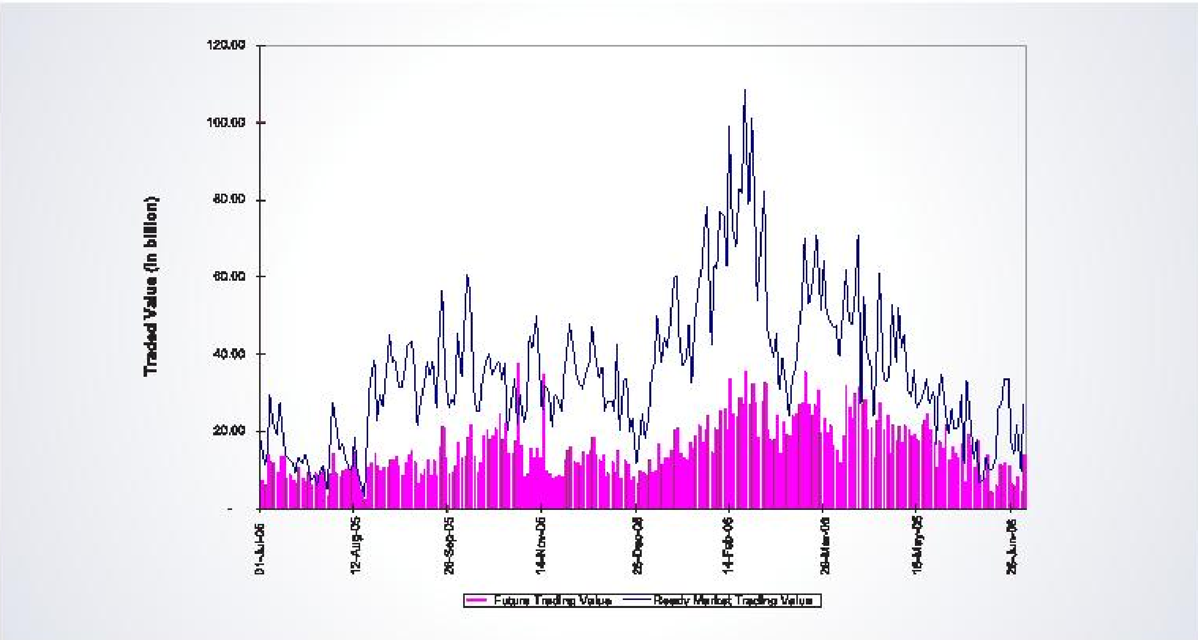


Figure 10: Traded Value in Ready and Futures Markets at KSE (July 2005 – June 2006)



7.3 Performance Review at a Glance

As the apex regulator of the capital markets, the Commission actively pursued its goals to increase investor confidence, proactively undertake market reform initiatives, and further implement sustainable risk management measures to minimize systemic risks. The Commission's various initiatives and reform programmes contributed towards a high level of integrity and transparency in terms of price discovery and trade settlement.

During the year under review, the Commission explored the implementation of a new risk management structure, based on international best practices, to improve the prevalent one at the exchanges. After a detailed review, a new structure was proposed on 18 June 2006 that included among others, a new netting regime; a margining system based on value at risk (VaR) and capital adequacy.

The Commission also started work to introduce a new funding product, the Continuous Funding System (CFS) Mk II, as a replacement for the existing CFS product.

The detailed proposal on CFS Mk II was presented to financial institutions and circulated amongst the management and members of the three stock exchanges, the Central Depository Company of Pakistan Limited (CDC), and the National Clearing Company of Pakistan Limited (NCCPL).

The Commission approved amendments in the National Clearing and Settlement System (NCSS) Regulations relating to margin financing on 8 September 2005. Minimum long-term credit rating of "BBB" was prescribed for financial institutions to become and/or continue as clearing members. The Commission approved amendments in CDC Regulations in September 2005 wherein the reporting requirement on the part of the issuer was reduced from quarterly to bi-annual basis. To protect investors and curb market abuse, the Propriety Trading Regulations, 2004 were amended in October 2005 to disallow aggregation of orders by brokers. In October 2005 the Commission approved initial standardised contract specifications for ninety days cash settled futures contract. These were further revised in 2006. The regulations governing CSF contracts for cash were being amended by KSE in light of the Commission's revised specifications.

As a step towards boosting investor confidence, the capital gains tax exemption has been extended till June 2008 and stamp duty on transfer of shares has been deferred for two years.

In order to bring the listing regulations of the stock exchanges in line with the Code of Corporate Governance, the Commission approved amendments in the listing regulations of KSE and Lahore Stock Exchange (LSE) in November 2005 such that all listed companies are required to follow the Code of Corporate Governance. To strengthen market integrity and minimise systemic risk, the KSE complied with the Commission's directive and implemented a pre-trade margin system, both in the Ready and Futures Market. The system allows for checking, at the time of placing an order, whether the concerned member is within his capital adequacy limit and has sufficient margin deposits for the execution of trades in the market.

In pursuance of the Commission's objective to increase market transparency and improve its surveillance capacity, the implementation of a Universal (Client) Identification Number (UIN) System at the stock exchanges was developed during the reporting period. The requisite software and hardware changes were made by the stock exchanges and NCCPL as per the implementation plan agreed by the stakeholders and the same was implemented with effect from 1 August 2006.

In late 2006, the Commission introduced the procedure whereby financial institutions place the requisite margins directly with the stock exchanges. This initiative would go a long way in providing a level playing field to small brokerage houses and will significantly enhance the capacity of the broker community to trade in the market place.

During the year under review, the Commission continued its participation as an active member of IOSCO to promote a high standard of regulation for just, efficient, and sound markets. As the Chair of the Working Group 3 (WG3) of the Emerging Markets Committee (EMC) and in-line with WG3's mandate on "Guidance to Emerging Market Regulators regarding Capital Adequacy requirements for Financial Intermediaries," the Commission prepared a draft report and shared it for comments with all EMC members. At the close of the year under review, the Commission was in the process of scheduling a WG3 meeting in Islamabad for August 2006 to discuss and finalise the draft report.

7.4 Development of Laws and Regulations

7.4.1 Amendments in Proprietary Trading Regulations

For the protection of investors and curbing market abuse, the Proprietary Trading Regulations, 2004 were amended on 7 October 2005 to disallow aggregation of orders by brokers. The amount of penalty for violation of the Regulations was increased from Rs. 25,000 to Rs. 100,000.

7.4.2 Amendments in General Rules and Regulations and Listing Regulations of Stock Exchanges

To bring the listing regulations of the stock exchanges in line with the Code of Corporate Governance, the Commission made amendments in the listing regulations of both KSE and LSE in November 2005. In order to broad-base the equity ownership and enhance the quantum of public offering, the minimum paid-up capital for listing at KSE and LSE was increased to Rs. 200 million and allocation of share capital to overseas Pakistanis was restricted to 20 percent of the public offer.

To further protect the interest of the general public, allocation of shares to sponsors in excess of 25 percent and allocation of shares under pre-Initial Public Offer (IPO) placement including employees of the companies/group companies etc., would not be saleable for a period of six months from the date of public subscription. This would prevent the pre-IPO investors from selling the shares in bulk immediately after the closing of public subscription, resulting in a decrease in the price of shares.

Moreover, at LSE, the offer of shares to the general public would not be less than Rs. 100 million or 25 percent of the share capital of the company, whichever is higher, while at KSE, if the capital of the company was Rs. 500 million or less, then at least 50 percent of such capital would be offered to the public. If the capital was in excess of Rs. 500 million, the public offer would be at least Rs. 250 million or 25 percent of the capital, whichever was higher.

Certain amendments were also approved in the listing regulations of KSE through which listed companies were required to provide information relating to free float of shares on a quarterly basis.

7.4.3 Amendments in CDC Regulations

On 29 September 2005, the Commission approved amendments in CDC Regulations relating to "Registrar/Transfer Agent Reconciliation Process" in which the reporting requirement on the part of the issuer was reduced from quarterly to six-monthly basis instead of annually as proposed by the CDC.

On 5 April 2006, the Commission initiated substantial reductions in Central Depository System's (CDS) tariff structure. The reduced cost of transacting securities would encourage investors' participation in the capital market. The custody fee was reduced by 50 percent and the transaction fee by 16.67 percent. Accordingly, the revised custody fee on shares became 0.015 percent per annum and on Term Finance Certificates (TFC), Bonds, and Units became 0.0125 percent per annum. The transaction fee for Investor Account Service was reduced to Rs. 0.0040 and for other than Investor Account Service was reduced to Rs. 0.0020.

The Commission also reduced the initial deposit fee payable by the Government of Pakistan to the CDC for the privatisation of state-owned enterprises.

7.4.4 Amendments in NCSS Regulations

On 8 September 2005, the Commission approved amendments in the NCSS regulations relating to margin financing. Furthermore, a minimum long term credit rating of "BBB" was prescribed for financial institutions to become and/or continue as clearing members. In May 2006, the Commission approved amendments in NCSS Regulations related to admission of NCSS as a clearing member. Accordingly, the minimum long term credit rating was specified as "A" and the minimum short term credit rating for admission as a clearing member was specified as "A3" for banking companies, investment companies, and mutual funds.

7.4.5 Fees and Penalties under the Clearing Houses (Registration and Regulation) Rules, 2005

The Policy Board had specified initial registration and renewal fee for a Clearing House in its meeting on 13 October 2005. The amount of penalty for contravention of the Clearing Houses (Registration and Regulation) Rules, 2005 was specified at an amount up to Rs. 100,000.

7.5 Development of New Products

7.5.1 CFS Mk II

The CFS was introduced with the promulgation of Continuous Funding System Regulations on 22 August 2005 to replace the Carry-over Trading (COT)/badla system. The CFS was introduced as an interim measure to enhance the level of liquidity in the market pending development of alternative safe and modern modes of leverage financing. The CFS Regulations provided for a review of CFS phase-out after the reporting period.

In anticipation of the phase-out, the Commission commenced work on a new product—CFS Mk II—to adequately address the biases inherent in the existing model of CFS that propagated systemic risks and precluded the formation of a level playing field for all market participants.

Salient features of CFS Mk II include the following:

- Financiers would provide funds directly to the market and not through brokers;
- CFS financed securities to be kept in a separate, blocked CDC account (this has already been implemented for the current CFS system);
- separate CFS Mk II protection fund;
- available funding certain for ninety days;
- CFS Mk II margins to be kept separate from other markets;
- cost of finance to be determined through the forces of demand and supply;
- reduction of financier's risk - quantum of funding to increase substantially;
- competition between financiers to achieve full disbursement would reduce financing cost;
- all CFS transactions to be carried out on a matching trade basis through the NCCPL to ensure transparency, wide availability and equitable distribution of finances;
- steady and certain source of liquidity at competitive rates; and
- market systemic risk due to netting across markets will be removed as Ready and CFS markets will be separated and no netting will be allowed between the two.

CFS Mk II would allow a level playing field for all market participants. It would also allow for ease of transactions and hassle-free execution whereby financial institutions could provide financing to the stock market directly through the stock exchanges' trading terminals. Moreover, a steady and assured source of liquidity at competitive rates would be available to all market players causing overall market activity to increase.

In this regard, the Commission held numerous discussions with stakeholders and a comprehensive proposal on CFS Mk II was presented to financial institutions and the SBP on 29 April 2006. It was also circulated to the management and members of the three stock exchanges, the CDC and the NCCPL. On 23 June 2006, the Commission constituted a high-powered Committee under the chairmanship of Mr. Shaukat Tarin and consisting of representatives of the Commission, the three stock exchanges, Mutual Funds Association of Pakistan, various brokers, and bankers to address the different matters relating to CFS Mk II and to prepare a roadmap for implementation.

7.5.2 Cash Settled Futures Contracts

The Commission approved standardised futures contract specifications for ninety days cash settled futures contract. The specifications for cash settled futures contract included, *interalia*, the contract code, size, contract period, position limits, and settlement mechanism. The regulations governing cash settled futures contract for ninety days are being finalised by KSE in light of the Commission's observation. The KSE Board of Directors decided in its meeting held on 11 May 2006 to start 90 days cash settled futures contracts initially in one scrip i.e. Pakistan Telecommunication Company Limited.

7.5.3 Free Float Index

To ensure that the KSE-100 index represents a fair picture of the market, the Commission advised the KSE to review and examine international best practices on the construction of market indices based on parameters such as free float rather than the number of outstanding shares.

In this regard, the Commission approved a revised concept paper for the KSE-30 Sensitive Index. The requisite amendments have been carried out in the KSE software to introduce KSE-30 index based on a free float from 1 September 2006.

7.6 Regulatory Actions

7.6.1 Risk Management

In order to strengthen market integrity and minimise systemic risk, the Commission introduced the following risk management measures during the period under review:

(i) Pre-Trade Margin Verification System

The Commission directed the KSE to implement a pre-trade margin verification system to ensure that brokers do not exceed the capital adequacy limit and deposit requirements. The KSE implemented pre-trade margin verification system in the Ready Market on 12 September 2005 and in the Futures Market on 18 October 2005. The system is pre-emptive in that it checks at the time of placing an order whether the concerned member will be within his capital adequacy limit after execution of the order and has sufficient margin deposits for the execution of trades in the market.

(ii) Exit Mechanism - Circuit Breakers

It was observed that situations had emerged in the past when investors were unable to exit the market due to the lock-in effect of circuit breakers. Many investors had expressed concern on the non-availability of exit opportunities in the event that share prices remained at the circuit breaker levels. The Commission felt that there was a need to provide exit options to investors. In this regard, the Commission approved an exit mechanism as proposed by KSE on 6 December 2005 for immediate implementation. As per this mechanism, the circuit breakers apply at 5 percent on day one, 10 percent on day two and 20 percent on day three. Subsequent events, however, proved that 20 percent drop in the market was untenable and therefore the circuit breakers were revised to 5 percent up and 5 percent down or Re. 1 whichever is lower.

The Commission also began the process of studying various international models/practices in relation to market halts based on free-float indices. Reform would be introduced after studying the working of free float index - KSE-30.

(iii) Proposed New Risk Management System

The Commission reviewed in detail the existing risk management framework and proposed a new risk management structure on 18 June 2006 designed to improve risk management at the stock exchanges, bringing them in accordance with international best practices. This new risk management structure includes the following:

- Restrictions on netting across markets, across clients and across settlement periods;
- Mark-to-market loss collection and profit distribution;
- VaR based margining system;
- VaR based mechanism for valuation of securities eligible to be held as security;
- New capital adequacy regime;
- Position limits;
- Special margins;

The stock exchanges were advised to review these risk management regimes and furnish their comments and observations to the Commission.

(iv) UIN

The rationale behind the UIN was to significantly enhance risk management at the client level and to improve the surveillance and monitoring capacity of the Commission and stock exchanges. The UIN would result in a more transparent market with increased investor protection as it created a traceable link between the orders executed through different traders and distinguishes proprietary trades from client trades. In this regard, the Commission approved the procedures for implementation of UIN in consultation with the stock exchanges, the CDC, and the NCCPL on 3 April 2006.

The stock exchanges, in coordination with CDC/NCCPL have made changes in the requisite automated trading system for implementation of UIN. As a first step, insertion of client code at pre-trade level was made mandatory from 5 June 2006. Subsequent to the close of the year under review, the UIN at pre-trade level was successfully launched at the three stock exchanges on 1 August 2006.

7.6.2 Market Governance and Transparency

(i) Regulations for Good Governance

In order to strengthen governance, enhance transparency, and reduce conflict of interest on the Board of the stock exchanges, the Commission made regulations for the stock exchanges on 29 November 2005 to provide for the election of the Chairman of the Board of Directors from amongst the non-member directors. The regulations stipulated that the Managing Director is not permitted to participate in the election for the Board's Chairman.

In compliance with the said Regulations, the Board of Directors of KSE, LSE, and ISE elected non-member Chairmen on the Boards of Directors for the year 2006.

(ii) Disclosure in Futures Market

After looking at various practices from numerous international jurisdictions, the Commission directed the exchanges to disseminate names of the top members in terms of open interest in futures without indicating whether the open interest is that of sale or purchase through their respective websites. This was implemented from 25 June 2005.

(iii) Standardisation of CDC Sub-Account Opening Form

The Commission had observed on several occasions that the forms used by brokers for opening CDC sub-accounts varied considerably in their terms and conditions and were, on occasion, to the disadvantage of the sub-account holders. To ensure adequate protection of the rights and obligations of both the sub-account holders as well as the brokers, it was felt that a standardised account opening form would be developed and made mandatory. In this regard, CDC was requested to develop account opening forms for individuals and institutions in light of the Commission's observations and send the same for final approval of the Commission.

7.6.3 Issue of Capital

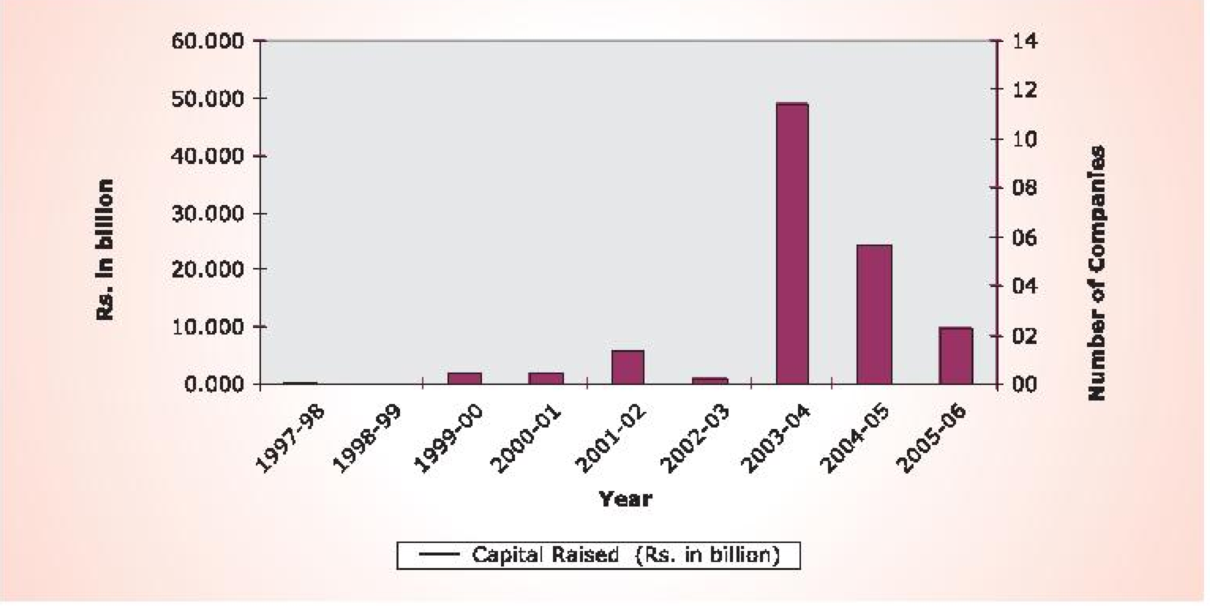
The Capital Issues Wing (CIW) deals with the approval of prospectuses and offer for sale documents for public offer of securities. The prospectus/offer for sale document of any company inviting public subscription of its securities under the Companies Ordinance is required to be approved by the Commission prior to its issue, circulation, and publication. The CIW also processes matters regarding issuance of commercial papers, registration of SPVs, applications for relaxation from requirements relating to the public offering of securities and matters regarding making of fictitious applications and submission of more than one application by a single applicant for subscription of shares.

During the year under review, seven companies issued or offered shares to the public as compared to twelve in FY2005. New capital of Rs. 9.60 billion was listed in FY2006 as compared to Rs. 24.33 billion in FY2005. Listing of capital of Rs. 24.33 billion during 2005 was primarily due to listing of Pakistan Petroleum Limited with Rs. 6.8 billion share capital, Kot Addu Power Company Limited with Rs. 8.8 billion share capital, and United Bank Limited with Rs. 5.1 billion share capital. Similarly, eight companies issued debt instruments, i.e. TFCs to the public, as compared to fourteen in the preceding year. TFCs of Rs 10.505 billion were listed during FY2006 as compared to Rs. 16.250 billion in FY 2005.

(i) Share Capital

Of the seven equity issues during FY2006, six were fresh through which 185.10 million ordinary shares amounting to Rs. 2,326.5 million (inclusive of premium amount of Rs. 475.5 million) were offered to the general public. Of the total seven issues, five were oversubscribed while two were undersubscribed. The details are given in Figure 11 and Table 7.

Figure 11: Public Issues During the FYs 1998–2006

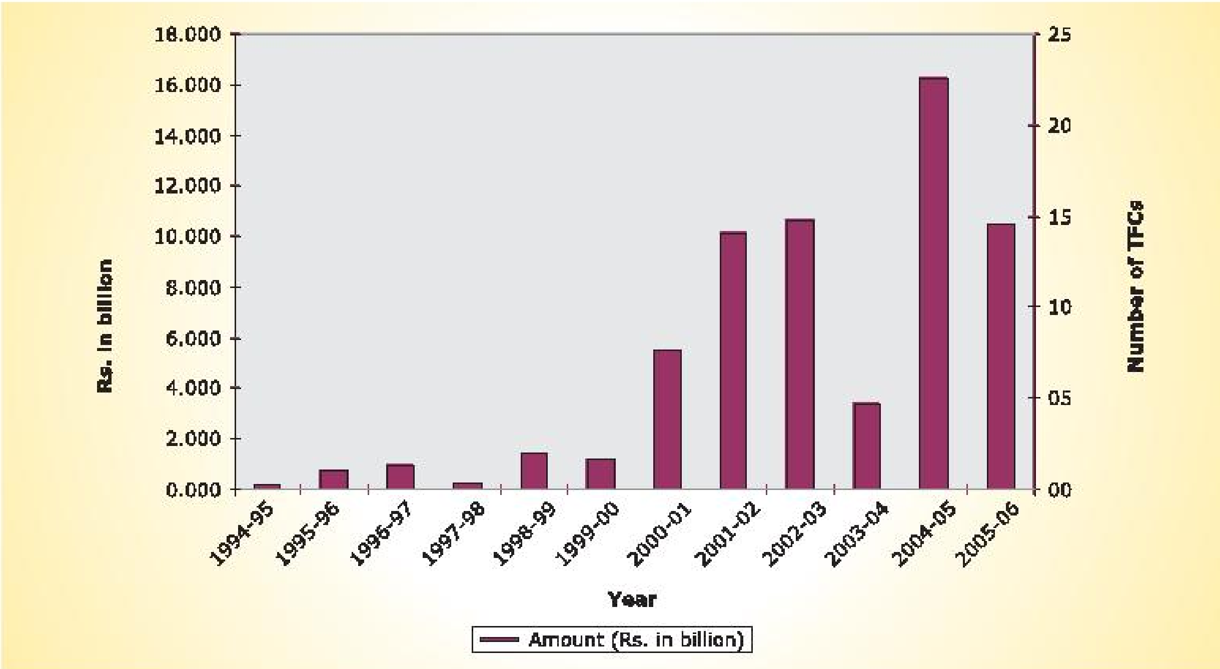


(ii) Redeemable Capital

During the year under review, eight companies made a public offer of TFCs involving an aggregate amount of Rs. 9.975 billion. An amount of Rs. 10.505 billion (inclusive of green-shoe option) was raised of which Rs. 7.515 billion was through private placement and Rs. 2.99 billion was from the general public. Of these eight TFC issues, three were undersubscribed.

Figure 12 gives a comparative presentation of TFCs raised over the last ten-year period.

Figure 12: TFC Issues Floated During the FYs 1996 – 2006



(iii) Section 18-A of the Securities and Exchange Ordinance, 1969

During the year under review, orders in respect of thirty-five cases of multiple applications under Section 18-A of the Securities and Exchange Ordinance, 1969 were passed and are available on the Commission's website.

(iv) Takeovers

To protect the interest of minority shareholders and to discourage violation of the regulatory requirements in respect of substantial acquisition of shares and takeover of companies, action under the Listed Companies (Substantial Acquisition of Voting Shares and Take-overs) Ordinance, 2002 (Takeover Ordinance) was taken in the case of Gammon Pakistan Limited whereby all the directors of the company were directed vide order dated 28 October 2005 not to restrain the acquirer from exercising voting rights in light of his ownership of 806,973 shares.

Further, in the matter of Trust Leasing and Investment Bank Limited, the acquirers and manager to the offer were given a stern warning to be careful in future and to comply with all the requirements of the Takeover Ordinance.

7.6.4 Registration of Brokers and Agents

In order to have a direct regulatory nexus, Brokers and Agents are required to be registered with the Commission under the Brokers and Agents Registration Rules, 2001.

(i) Brokers

During the year under review, 37 brokers changed their status from individual to corporate entities and seven new members of the exchanges were registered as brokers with the Commission. As a result of these new registrations the total number of registered brokers has increased from 304 to 311 as of 30 June 2006. This is a healthy sign for the stock market as corporatisation and institutionalisation of brokers would improve governance practices in the brokerage business. The details of registration are given below:

Total Number of Registered Brokers (30 June 2005)	Addition During the Year	Cancellation, Surrender of Certificate of Registration	Total Number of Registered Brokers (30 June 2006)
304	44	37	311

Classification of brokers into corporate and individual broker at the stock exchange level are given below.

Stock Exchange	Corporate Brokers	Individuals	Total	Percentage of Brokers at each Exchange
KSE	119	51	170	55%
LSE	57	37	94	30%
ISE	44	3	47	15%
Total	220	91	311	100%
Percentage of Total Brokers	71%	29%	100%	

(ii) Agents

Following are details of agents as of 30 June 2006:

Stock Exchange	Total Number of Registered Agents (30 June 2005)	Additions During the Year	Cancellation Surrender of Certificate of Registration	Total Number of Agents (30 June 2006)	Percentage of Total Agents
KSE	105	132	40	197	64%
LSE	64	49	18	95	31%
ISE	26	13	24	15	5%
Total	195	194	82	307	100

(iii) Enforcement of Section 5A

The robust performance of the stock exchanges has attracted substantial investment from all over Pakistan. As a result, many stockbrokers of the exchanges have opened their branches in various cities of the country after getting themselves registered and completing the required formalities to facilitate local investors. However, the Commission got reports from various sources that various unauthorized brokers/agents were dealing in the securities business in various towns and cities in violation of Section 5-A of the Securities and Exchange Ordinance, 1969.

To curb the activities of these illegal and unauthorised entities, a comprehensive campaign began during the year under review to protect the interest and confidence level of investors and the general public.

A detailed circular dated 6 January 2006 was issued to all the exchanges of the country with the instructions to notify all their Members to operate branch office(s) only after duly informing the exchanges and in strict compliance with applicable rules and regulations. Members were also advised to refrain from dealing with such illegal/unauthorised brokerage houses/branches and inform the exchange and the Commission if any such entities came to their knowledge. The exchanges were required to advertise in newspapers - especially in the cities of Faisalabad, Multan, Bahawalpur, Rahimyar Khan, Peshawar and any other deemed fit - warning the general public to refrain from dealing with such elements. Moreover, they are to have regulations for registration of member's branches and conduct of business. The exchanges were also advised to establish a dedicated helpline to disseminate information to the general public about the status of the brokerage houses and their authorised branches and widely publicise this facility in the national media.

During FY2006 a total of nineteen unregistered/illegal brokerage entities were reported to the Commission. A thorough investigation was made in all cases and subsequent action was taken under the applicable securities laws, rules and regulations. The status of the above cases is as under:

Number of Illegal Brokerage Houses/Branches reported	19
Prohibitory Order/Final order Issued	10
Warning letter issued	1
Show Cause Notices/Prohibitory Order issued	3
Action not initiated due to lack of documentary evidence	2
Houses/Branches found legal/registered	3

7.7 Monitoring and Enforcement

7.7.1 Market Monitoring and Surveillance

The Market Monitoring and Surveillance Wing (MSW) is responsible for detecting unfair market practices and adherence to laws, rules and regulations of the Exchanges. The MSW keeps a close watch on price movements of scrips, monitors abnormal price fluctuations and high turnover, detects cases of market manipulation and insider trading, and conducts detailed investigations for such cases. The MSW also carries out detailed analysis of systemic risk indicators and undertakes research to analyse and introduce steps to further strengthen the risk management framework.

During the period under review, MSW continued its efforts to ensure market fairness and actively pursued and implemented measures relevant to strengthening the risk management framework. On occasions that MSW detected suspicious trading activities as a result of its surveillance, it conducted investigations and undertook enforcement actions against the responsible participants. Details of actions taken by the MSW during the reporting period are given in Table 8.

MSW also adopted a number of measures to strengthen market integrity through effective enforcement practices; a number of cases relating to market abuse are presently under investigation.

7.7.2 Investor Complaints Wing

Section 20(6)(b) of the SECP Act entrusts the Commission with the responsibility of maintaining confidence of investors in the securities market by ensuring adequate protection for such investors. In an effort to ensure investor protection and provide relief to aggrieved investors, the Investor Complaints Wing (ICW) works in close coordination with the stock exchanges so as to investigate illegal practice of market intermediaries. It also exercises vigilance over stock exchanges for expeditious and efficient dispute resolution.

In case of defaulting members, it works diligently in monitoring the default procedures and practices of stock exchanges so as to provide relief, within minimum possible time, to investors aggrieved by such defaults. Moreover, in cases that warrant investigations, ICW appoints investigating officers to undertake detailed investigations and orders are passed on these cases based on the findings of the investigating officers after affording opportunity of hearing to the parties.

In case of detection of some lag or delay, the Commission seeks explanation from the stock exchanges and efforts are made in accordance with law to expedite the matter by helping remove any hindrances. Further, all the awards passed by an arbitrator appointed by KSE are also sent to the Commission for information. Though the Commission does not involve itself directly in resolution of disputes, a proper track of complaints is nevertheless kept and vigilance is maintained. In addition to this, the Commission guides the investors at every step and facilitates the resolution of their grievances.

The statistics of complaints received and handled by the ICW for the period July 2005 – June 2006 is given in Table 9.

(i) Complaints Handled Directly by ICW

Although the Arbitration regulations of the exchanges specify the course of action to be followed in disputes between brokers and investors, the Commission may directly take up any matter where it observes an apparent breach of laws falling under its purview or deems it appropriate in the interest of the investor. However, this only happens in cases where *prima facie* evidence is available or facts of the case are such that the matter requires urgent action and/or the issue may have domino effect on the market.

During the year under review, the ICW passed twelve orders to dispose off the complaints against stock exchange members. Of these, three were challenged before the Appellate Bench of the Commission and one order, wherein member's certificate of registration as broker was revoked, was challenged before the honourable High Court of Sindh. Proceedings of appeals filed against the orders of the ICW before the Appellate Bench were pending with the Appellate Bench at the end of the reporting period, whereas the Commission's order was suspended by the honourable High Court of Sindh and a final decision was still awaited.

(ii) Frequently Asked Questions

During the reporting period, the ICW prepared a comprehensive list of Frequently Asked Questions for the assistance of general public and investors regarding complaints. These are available on the Commission's website.

7.7.3 Inspection Wing

During the year under review, the Commission continued its endeavours to check market manipulation activities by securities market participants and enforce compliance of securities laws. In this regard, the Inspection Wing conducted inspections and targeted enquiries/investigations into the affairs of a number of brokerage houses, detail of which are given as under:

- The Inspection Wing conducted a number of inspections and six inspection reports were finalised. After providing the brokers with an opportunity of hearing, as envisaged under the law, compliance letters were issued to the respective brokers for taking corrective measures and rectifying the defaults observed. Follow-up inspections would be conducted to evaluate the level of compliance by the said brokers, failing which cognisance of the same would be taken in accordance with the law.
- An inquiry was conducted under Section 21 of the Securities and Exchange Ordinance, 1969 into the affairs of a brokerage house to check possible defaults of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules). In another enquiry under the same section, the Inspection Wing undertook joint investigation with the other department to look into the quality of assets of the broker as an entity and possible violations of securities laws. The report on the findings was prepared and action on the same was underway as per the law.

To ascertain the reasons for market volatility in March 2005 and in continuation of the taskforce report, the SMD obtained KATS data from KSE for the month to check for any possible market abuse. Analysis of the data revealed that trades were executed in such a manner that buyer(s) and seller(s) were the same thereby depicting no change of beneficial ownership. The possibility of price manipulation and/or brokers benefiting from some unfair advantage could not be ruled out. Such a pattern of trading by brokers is not in conformity with securities laws and such practices could not be allowed as these have a negative impact on the market.

The Commission took action against brokers under the Brokers and Agents Registration Rules, 2001, for indulging in unfair trade practices by failing to exercise due skill, care, and diligence in the conduct of business. Show cause notices were issued to ninety-seven brokers of the exchanges and, after following due process, ninety-three were penalised while four were issued warnings to be careful in future.

In connection with the market volatility of June 2006, preliminary investigations were conducted into the business affairs of sixty-two brokerage houses of the exchanges. On the basis of these findings, professional services of four CA firms were engaged for further investigations in the matter. Under Section 21 of the Securities and Exchange Ordinance, 1969, these firms were appointed as Enquiry Officers to probe into the business affairs of thirty-six brokers of KSE and twenty-six brokers of LSE. The enquiry was in progress at the end of the reporting period.

To further improve brokers' compliance with the applicable securities laws, rules and regulations of the Commission and the exchanges, a system audit of the business affairs of the brokerage house was made compulsory under the Regulations Governing System Audit of the Brokers of the Exchanges, 2004. To ensure maximum compliance with the system audit reports, the Inspection Wing began analysis of the contents of each system audit report of brokers from the current year. In this regard, 228 system audit reports were analysed, of which eighteen showed full compliance by the brokers. For the remaining, enforcement letters highlighting the non-compliant areas were sent to respective exchanges for further necessary action under the said regulations. At the end of the reporting period, LSE and ISE had taken action against forty-nine brokers; no enforcement status had been submitted by the KSE as this issue was pending with its Board of Directors as at the close of the year under review.

The Inspection Wing also monitored compliance by companies and stock exchanges in terms of companies' voluntary delisting from the exchanges and related matters such as handling and resolving complaints lodged by complainants/shareholders regarding purchase of shares by the majority shareholders of companies that opt for voluntary delisting. While it is the responsibility of the stock exchanges to ensure compliance with Section 32-A of the listing regulations, the Inspection Wing also proactively reviewed the delisting process and addressed any complaint lodged by the company against decisions of the exchanges. During the year under review, cases of fourteen companies relating to the buy-back of shares/delisting of companies were reviewed by the Wing.

7.7.4 Beneficial Ownership

To protect the interests of small shareholders and investors, the terms of Section 224 of the Companies Ordinance prohibit directors, chief executives, managing agents, chief accountants, and secretaries of listed companies who are beneficial owners of any of their equity securities, and every person who is directly or indirectly the beneficial owner of more than 10 percent of such securities from retaining the amount of profit made by them on account of transactions made within a period of six months. In compliance with the said provisions of the Companies Ordinance, these people are required to tender the said amount of gain to the issuing company or the Commission, as the case may be. For the purpose of finding such cases where tenderable gain has accrued, the returns of beneficial ownership, filed in compliance with Section 222 of the Companies Ordinance, are examined.

During the period under review the Commission received 2,392 returns of beneficial ownership. Every listed company is required to file annual returns on Form-A, the prescribed additional information and a soft copy of list of its members, in accordance with S.R.O. No. 1014/(I)86 dated 12 November 1986 and circular No. 6 of 2001.

(i) Enforcement Actions

The position of tenderable gain cases as of 30 June 2006 is summarised below:

Status	No. of Cases
Order passed under Section 224 of the Companies Ordinance	3
Amount of gain tendered in favour of the Commission in response to Orders and letters	8
In process	3
Proceedings dropped	2
Pending with Lahore High Court, Lahore	1
Pending with Supreme Court of Pakistan	2

(ii) Administrative Appeals

Bestway (Holdings) Limited, a beneficial owner of Bestway Cement Limited filed appeal against the order of Executive Director (SMD) before the Appellate Bench of the Commission, which was pending on the close of the period under review.

During the period under review, the Commission filed two appeals in the Supreme Court of Pakistan against the Order of Lahore High Court, Lahore, passed in two different appeals filed by First Capital Securities Corporation Limited vs. SECP.

7.8 Developmental Activities

7.8.1 Derivatives Committee

The Commission constituted a Derivatives Committee to look into the feasibility of an Exchange-Traded Derivatives Market in Pakistan. The Committee submitted its report in February 2006. It recommended the introduction of exchange-traded derivatives in Pakistan and identified certain pre-requisites such as adequate legal, regulatory, and governance infrastructure and oversight to be in place. The Committee also provided a roadmap for introduction of derivatives in the market and their future development.

The report was forwarded to various stakeholders for comments. The KSE proposed a phased approach such that Futures Contracts of multiple durations would be introduced in the first phase, index futures and options in the second phase, and stock and index options in the third phase.

At the end of the reporting period, the Commission was preparing a roadmap for implementing the recommendations of the Derivatives Committee along with the suggestions received from KSE.

7.8.2 NCCPL

While risk management is primarily the responsibility of the stock exchanges, in accordance with international best practices it needs to be transferred to an independently managed clearinghouse, i.e. NCCPL. It is important that the NCCPL be adequately capitalised before it assumes risk management functions from the exchanges as it would require significant expenditure for the purchase of risk management infrastructure – software, hardware, and funds for the Clearing Protection Fund.

In this regard, the Commission, in consultation with NCCPL, prepared a roadmap and is working towards restructuring NCCPL to facilitate the transfer of risk management system. This, interalia, includes independent management of NCCPL, restructuring of the governance and capital structure of the company, development of an effective risk management system, and unification of the Clearing House Protection Fund into Settlement Guarantee Fund.

Recently, the Commission approved the appointment of an independent CEO of NCCPL. The NCCPL, under the Clearing Houses (Registration and Regulation) Rules, 2005, has set up a clearing and settlement fund with an initial contribution of Rs. 100 million. The fund would be utilised to satisfy clearing members' obligation towards the clearing house in case of default by any member.

7.8.3 NCEL

Amendments introduced in Securities and Exchange Ordinance, 1969 vide the Finance Act 2006 provided the Commission with interim legislation to govern NCEL. Extensive reviews and regular dialogues were undertaken during the reporting period to ascertain and ensure the efficiency of various functions to be performed by the NCEL.

NCEL organised the 1st Annual Pakistan Derivatives Conference called "Demystifying Derivatives." Under the Commission's recommendation, NCEL undertook special programmes on investor education and seminars were conducted in Karachi, Lahore and Islamabad to enhance the knowledge base of market participants and convey the basics about futures markets and futures trading. NCEL was also encouraged to undertake consultancy projects like providing VaR based risk management systems to the stock exchanges.

7.8.4 Corporate Debt Market

The Commission formed a working group on "Debt Market and Commercial Paper" to identify impediments to the development of the debt market and to recommend appropriate steps for promoting issuance and market-making of money market instruments. The working group comprised of members from SBP, the Commission, commercial banks acting as primary dealers of government securities, issuers of securities, consultants to various corporate debt and commercial paper issues, KSE, CDC, and the NCCPL. On the recommendation of the working group, KSE reduced the maximum initial listing fee for debt instruments from Rs. 500,000 to Rs. 100,000. The working group also recommended the following amendments in the Stamp Act, 1899, which have been forwarded to the Chief Commissioner of Islamabad Capital Territory, and Boards of Revenue in Punjab, Sindh, Balochistan and NWFP:

- The stamp duty rate of 0.05 percent or Rs. 1,000,000, whichever is lower, on first issue of debentures, bonds including participation term certificates, TFCs or any other instrument of redeemable capital (other than commercial paper) at the time of registration instead of the existing rate of 0.15 percent.
- Stamp duty of 0.02 percent per annum i.e. linked to the maturity period of the commercial paper or Rs. 100,000 whichever is lower upon issuance of commercial papers instead of the existing rate of 0.2 percent.

The Commission also constituted a Debt Capital Market Committee headed by the Chairman SECP, for the development and promotion of debt capital market in Pakistan. The committee comprises of representatives from commercial banks, investment banks, mutual funds, issuers and lawyers and has been tasked to identify the issues hindering the growth of the debt market and to make recommendations for its development. The committee will send its final recommendations to the Commission for necessary action with relevant authorities.

7.8.5 IOSCO

The Commission continued its participation as an active member of IOSCO to promote high standards of regulation in order to maintain just, efficient, and sound markets. In its capacity as the Chair of WG3 and in line with WG3's mandate on "Guidance to Emerging Market Regulators regarding Capital Adequacy Requirements for Financial Intermediaries", the Commission drafted a questionnaire for circulation amongst all WG3 members for their comments and conducted extensive analytical research. After receiving comments, a draft report was prepared and shared with all EMC members. Subsequently, the Commission also took steps to schedule a WG3 meeting to be held in Islamabad in August 2006 to discuss and finalise the recommendations of the draft report.

7.9 Annual Plan

7.9.1 Work in Progress

(i) Securities Act

In light of present-day national and international market trends and products, the existing Securities and Exchange Ordinance, 1969 is a considerably outdated legislation with several shortcomings that need to be addressed. Despite the numerous amendments made to the Ordinance over time, there is a need to update it to bring it in line with current market realities and needs.

During the reporting period, the Securities Act was drafted in line with IOSCO's Principles of Securities Regulation, which are an international benchmark for effective and efficient regulation of the securities industry and enhancing investor protection. The Commission's goal is to create a regulatory framework which is complete, comprehensive, and adequately caters to the needs of an emerging market. Further refinements of the Act will continue during FY2007.

(ii) Futures Trading Act

To introduce derivative products and futures trading, a comprehensive regulatory infrastructure is required to be established through legislation so as to ensure the effectiveness and enforceability of futures and derivative transactions. The legislation must also provide for a centralised clearing system as well as recognise the system and the clearing and settlement concepts that it embodies.

During the year under review, the Commission prepared a draft Futures Trading Act with the assistance of external consultants provided under the FMGP. In addition to providing a regulatory framework for futures trading, the Act would accommodate the issuance of more specific rules, regulations, guidelines, and formats. The Commission would subsequently issue Rules under the Futures Trading Act, which would support and allow establishment of standards for ascertaining the financial strength and investment appetite of potential clients and making them sufficiently cognisant of the risks of futures trading.

A draft Futures Trading Act, submitted for approval to the Ministry of Finance in December 2005, is pending promulgation.

(iii) Demutualisation of Stock Exchanges

The Commission is vigorously pursuing the process of demutualisation and is maintaining close liaison with stock exchanges and other stakeholders to drive the process. In this regard, the Commission initiated a consultative process with all stakeholders and arranged various meetings with the stock exchanges to discuss the modalities and implementation of demutualisation and possible integration soon after the submission of the report by the experts committee on demutualisation and integration. The stock exchanges evinced firm commitment to support the Commission's efforts in this regard.

The Commission and KSE signed a MoU on critical issues for demutualisation on 28 January 2006. The MoU, interalia, covers matters relating to issuance and transfer of trading rights, the moratorium period, Code of Governance, issuance of shares, transfer of assets, shareholding structure, and composition of Board of Directors. As per the MoU, the KSE will be converted into a public unlisted company and 100 percent of its share capital will be issued to the members in accordance with the valuation carried out within six month of enactment of the Act. Within eighteen months of the enactment of the Act, members shall disinvest 60 percent of their shares to institutions and general public and list the exchange. The shareholding of KSE shall be as follows: 40 percent brokers, 40 percent financial institutions, and 20 percent general public.

In consultation with the FMGP consultants, the Commission prepared the proposed governance and regulatory structures of a demutualised stock exchange.

The Commission also drafted a mechanism to address conflict of interest in a demutualised stock exchange.

During the year under review, the Commission proposed amendments to the Securities and Exchange Ordinance, 1969 in order to effect demutualisation. Pursuant to these amendments, the stock exchanges shall stand corporatised and demutualised with effect from 31 December 2006 or from such later date as may be specified by the Commission, in such manner and in accordance with such conditions as may be prescribed under secondary legislation. As per the MoU with the KSE the deadline for demutualisation has now been extended to 31 December 2007.

(iv) Formulation of Rules and Regulations

Preliminary draft of the following Rules has been prepared:

- Bankers to an Issue Rules;
- Debenture Trustee Rules;
- Balloter and Securities Transfer Agent Rules; and
- Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Rules.

These would be notified after necessary review and due deliberation by the Commission.

(v) Investor Awareness

The Commission and the CDC conducted road shows as part of continued efforts towards investor education and awareness. From July to December 2005, two road shows were conducted in Quetta and Multan respectively, while a third was held in Sukkur in January 2006. Similar road shows will be held in Sahiwal, Faisalabad, Gujranwala and other places in FY2007.

7.9.2 Future Plans and Actions

The SMD plans to carry out the following activities during the coming year:

(i) CFS Mk II

SMD will continue work on the new CFS Mk II that will adequately address the biases in the existing model of CFS that propagates undue systemic risks and precludes the formation of a level playing field for all market participants.

(ii) Implementation of Stock Lending and Borrowing Mechanism

Subsequent to the promulgation of Securities Lending and Borrowing (SLB) Regulations, the Commission asked the CDC to prepare an implementation schedule for SLB facility through CDC. In February 2006, the CDC submitted a report on the objectives, demand, and model of SLB. According to the CDC, the report was prepared keeping in view international best practices, local demand and supply of SLB, and the informal feedback from various market participants. The CDC Report was sent to the stock exchanges on 28 April 2006 for their comments before further action.

(iii) Legislation

- Finalisation of a Securities Act to replace the existing Securities and Exchange Ordinance, 1969
- Finalisation of Futures Trading Act and supplementing Rules

(iv) Investor Education

- Road shows for investor education
- Introduction of focused investor awareness and education programs

SMD has also implemented the following reforms as at February 01, 2007.

(v) Risk Management

- Margin system based on VaR
- Netting not to be allowed across markets and across settlement periods
- Mark-to-market loss collection and profit distribution
- Valuation of securities eligible to be held as security
- Position limits in each market
- Introduction of special margins
- Client level netting is due to be implemented with effect from 1 March 2007
- Introduction of new capital adequacy regime

(vi) Role in Global Market

- Finalisation of draft report on capital adequacy, as part of the mandate of WG3 of the EMC of IOSCO.

Chapter 8

Specialised Companies Division

Specialised Companies Division

OBJECTIVE: (i) To develop and strengthen NBFCs by ensuring a comprehensive regulatory framework and its proactive enforcement through sustained monitoring to protect the interests of all stakeholders; (ii) to build a framework for occupational saving schemes that promotes national savings and provide for retirement benefits and ensure its regulation; and (iii) to develop new financial products designed to strengthen and diversify the financial sector and enhance foreign direct investment.

8.1 Operational Structure

8.1.1 Structure

The Specialized Companies Division (SCD) is primarily responsible for regulating and monitoring NBFCs, mutual funds, Modarabas, and private pensions. Its core objective is to provide a conducive regulatory environment to foster growth in the non-banking financial sector, safeguard the financial system, and protect the interests of shareholders, depositors, and pensioners under the relevant laws. The SCD has been organized into the following segments.

(i) Non-banking Finance Companies Department

The Non-Banking Finance Companies Department (NBFCD) is responsible for licensing and regulating entities under its purview and ensuring their enforcement and compliance with applicable laws. These include NBFCs - companies engaged in the business of leasing, investment finance services, discounting services, housing finance services, venture capital investment, asset management services, investment advisory services, Modarabas, and Modaraba Management Companies (MMC). The NBFCD consists of the following Wings:

- NBFCs
- Modaraba
- REITs and New Initiatives
- Monitoring and Inspection

(ii) Pensions Wing

A separate Pensions Wing was formed within the SCD last year for regulation of private pensions in the country. While the Wing would initially be implementing and administering the voluntary pension system (VPS), it would, on a longer term, devise a regulatory framework for existing occupational pensions and saving schemes as well.

8.1.2 Management Team

The SCD is headed by Commissioner Mr. Salman Ali Shaikh. He is a senior emerging markets banker having over thirty-two years experience with various leading banks in the country including Citibank. He was also the Managing Director of an investment bank and part of the senior management team that led the turnaround of Habib Bank Limited.

During the period under review, Ms. Jaweria Ather, Director, was heading the NBFCD while Mr. Akif Saeed, Director was heading the Pensions Wing. Subsequent to the close of the year, Ms. Jaweria Ather left the Commission and Mr. Akif Saeed was promoted as Executive Director of the SCD. He is assisted by a team of professionals with diversified experience and academic qualifications in the fields of business, accounting and actuarial science.

8.2 Laws Administered

i. Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980
ii. Companies Ordinance, 1984
iii. Modaraba Companies and Modaraba Rules, 1981
iv. Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003
v. Voluntary Pension System Rules, 2005
vi. Prudential Regulations for NBFCs
vii. Prudential Regulations for Modarabas

8.3 Sector Overview

8.3.1 NBFCs

To bring efficiency in the financial sector and consolidate the fragmented business of NBFIs, the NBFC concept was introduced and in this connection, the NBFC Rules were promulgated on 1 April 2003. Under these Rules, NBFCs are allowed to conduct businesses of (i) Investment Finance Services (ii) Leasing (iii) Venture Capital Investment (iv) Discount Services (v) Investment Advisory and Asset Management Services and (vi) Housing Finance Services.

With a view to strengthen the NBFC Sector, the concept of Universal NBFCs was introduced last year with the primary objective of consolidating the non-banking financial services sector by allowing multiple businesses under one umbrella. The Universal NBFC concept would enable the offering of a range of financial products, tailored to the needs of customers, through a one-window operation. Appropriate amendments are underway in the NBFC Rules to reflect the concept.

The formulation of an independent NBFC Law is also in progress so as to overcome the encumbrances of being a subordinate law to the Companies Ordinance.

The table below shows comparative composition of the NBFC sector over the last two years:

	2006	2005
Investment Banks	13	13
Leasing Companies	23	23
Housing Finance	3	3
Discount Houses	3	3
Fund Managers (Investment Advisors + Asset Managers)	34	22
Venture Capital	4	3

8.3.2 Modarabas

The Modaraba sector has an established legal framework that provides a Shariah compliant mode of financing and investment. Since their inception, Modarabas have played a vital role in the development and growth of Islamic modes of financing in the economy and capital markets.

A Modaraba can be either specific or multi-purpose and can be formed for either a fixed or an indefinite period. Most Modarabas in Pakistan are in the financial sector whilst others have been formed for industrial, trading or other service sector purposes. Most Modarabas floated in Pakistan are like closed-end mutual funds and are exempt from income tax provided they distribute 90 percent of their profits amongst certificate holders.

Major sources of funds of Modarabas consist of equity and borrowing from banks and financial institutions on Murabaha/Musharaka basis. The funds generated by Modarabas during the period amounted to Rs. 949 million. All the funds raised through the said sources were mainly utilized in leasing, extending Musharaka and Murabaha facilities, investing in shares of listed companies and trading etc.

At the close of the year, there were twenty-nine Modarabas in operation. There was a 10 percent increase in the total assets of Modarabas as compared to last year, depicting a growth trend in the sector. It is expected that the trend would continue. The table below shows comparative performance of the sector over the last two years

	2006	2005
Modaraba Companies	51	51
Modarabas	29	36
Modarabas Under Winding Up	7	4
Modarabas that are Inoperative	0	1
Modarabas Under Floatation	6	1
Total Paid-up Fund of Modarabas (Rs. in Million)	8,000	7,863
Total Assets of Modarabas (Rs. in Million)	24,328	22,128

8.3.3 Pensions

The pension system in an economy has both social and economic implications; on one hand it provides retirement benefits for the masses and on the other hand, it mobilises long-term savings which contribute to the development of financial and capital markets.

There are three broad types of retirement benefit schemes prevalent in the private and public sectors in Pakistan:

- Provident Fund
- Gratuity Schemes
- Pension (or superannuation) Schemes

The first two are, by far, the most popular. Technically, these two do not strictly qualify as retirement benefits, particularly in case of private sector where funds under these schemes are usually consumed before retirement in shape of early withdrawals and borrowings or are consumed at the time of job switching when these are paid in lump sum.

In Pakistan, the traditional 'joint family' system is slowly being replaced by the 'nuclear family.' With improvements in health and medical facilities resulting in increasing life spans, it is not hard to foresee an aging population dependent on a decreasing percentage of a younger, revenue-generating group. This 'greying' phenomenon is already visible in most of the developed world and even though problem is not forecasted to hit Pakistan for another two decades, it is important to take the preliminary steps now to prevent a crisis situation later.

Pension schemes in Pakistan have remained confined to the salaried section of the population in the form of occupational pension and savings schemes. Most individuals are outside the organized labour sector and the concept of a 'regular monthly pay check' is alien to them. Individuals who are either self-employed or engaged in the informal sector fall in this category. It is important to extend the concept of pensions to this group as well.

To extend the scope of retirement benefit schemes to the masses, the Government decided to develop a new defined contribution system for people who do not have access to a retirement scheme. On 15 March 2003, the Government assigned the regulation of private pensions to the Commission. A new VPS was designed under the VPS Rules that are presently at the implementation stage. The VPS is based on tax incentives for which necessary amendments in the Income Tax Ordinance, 2001, have been made; it is flexible in terms of contribution, asset allocation choice, switching from one scheme to other and above all, portability.

It is envisioned that VPS would make long-term savings and pensions available to the masses of the country in a secure and regulated environment, while allowing the participants the flexibility to choose between various investment options and different fund managers.

Presently, private occupational savings schemes, including pension funds, gratuities and provident funds are not being regulated by any agency. Under private occupational pension and saving schemes recognized by CBR, the employer, participant, and the invested assets enjoy certain tax advantages. On account of this, CBR may be seen as a quasi-regulator for these schemes. There is no register of occupational pension and saving schemes, nor are there collected statistics, published or otherwise, on the number, assets or membership or of any pension demographics, whether by age, gender or region.

Therefore, the Commission began work on developing a regulatory framework for private occupational pension and saving schemes so that a uniform system of pensions may be developed in the country where each part complements the other.

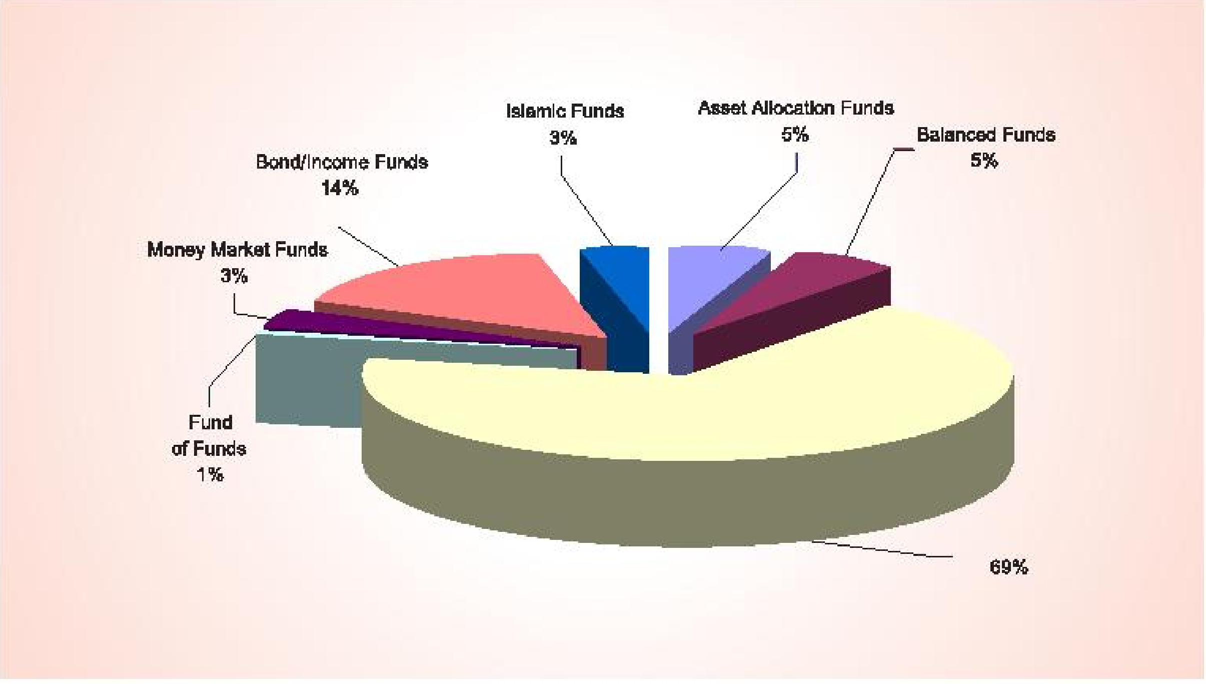
8.4 Performance Review

8.4.1 NBFCs

(i) Mutual Funds

Among the NBFCs the mutual funds industry showed the highest growth; it comprises twenty-seven open-end funds and twenty-one close-end funds. Net assets of mutual funds have increased from Rs. 125 billion on 30 June 2005 to Rs. 160 billion on 30 June 2006, depicting a growth of 28 percent. This growth resulted mainly from the diversified products offered by the industry. Key statistics of the close-end funds and open-funds are shown in Table 10 and Table 11 respectively. Figure 13 depicts the assets under management of different categories of the mutual funds:

Figure 13: Assets Managed Under Different Categories of Mutual Funds



(ii) Issuance of Fresh Licenses

During the period under review, twenty-seven fresh licenses were issued to businesses such as leasing, investment banking, and asset management companies. Details of these are given in Table 12.

No-objections for establishment of NBFCs intending to undertake investment advisory and asset management services were also issued to eight entities.

(iii) Opening of Branches

During the period under review, approval for opening of twenty-six new branches in different cities of the country was granted. Permission for opening an international branch in Dubai was granted to Security Investment Bank Limited subject to completion of formalities under other relevant laws.

(iv) Renewal of Licenses

During the period under review, licenses of fifty-nine NBFCs were renewed, details of which can be found in Table 13. For licences which have not been renewed or refused see Table 14.

(v) Public Offering

During the period under review, public offering of the following twelve new mutual funds was approved:

i. PICIC Energy Fund
ii. AKD Index tracker
iii. UTP Fund of Funds
iv. Al-Falah GHP Value Fund
v. United Growth and Income Fund
vi. NAFA Cash Fund
vii. KASB Liquid Fund
viii. AKD Opportunity Fund
ix. ASKARI Income Fund
x. Pakistan International Element Islamic Fund
xi. AMZ Plus Income Fund
xii. UTP - A30+ Fund

(vi) Mergers and Amalgamations

During the reporting period, the following mergers and amalgamations were approved and allowed:

- Jehangir Siddiqui Investment Bank Limited was granted a no-objection, in principle, to merge with American Express Limited for forming a new banking company incorporated with the name JS Bank Limited.
- Atlas Investment Bank Limited was also granted a no-objection to merge with Atlas Bank Limited (formerly Dawood Bank Limited).
- Three funds namely, ABAMCO Capital Market Fund, ABAMCO Stock Fund and ABAMCO Growth Fund were approved for merger to form UTP - Growth Fund.

(vii) Investment in Unquoted Shares

During the period under review, three NBFCs were granted permission to invest in unquoted shares. Crescent Leasing Corporation Limited was granted a no-objection to acquire 24 percent shareholding of Universal

Leasing Limited and First International Investment Bank was allowed to acquire 100 percent shareholding of Finex Securities Limited by forming a 100 percent owned subsidiary. Moreover, Trust Leasing and Investment Bank was allowed to transfer the controlling shares of its existing sponsors to new sponsors.

(viii) Other Regulatory Issues

Certain NBFCs, which appeared to have higher cost of deposits compared to market conditions, were placed on a priority list of on-site inspections. Moreover, legal proceedings in respect of Islamic Investment Bank Limited were initiated by the NBFCD. The revival plan of an investment bank was also considered and comments in this respect were submitted to the court as the revival plan petition by the investment bank was pending in the Lahore High Court, Rawalpindi Bench at the end of the reporting period.

8.4.2 Modarabas

(i) Registration of New Modaraba Company

During the period under review, three MMCs were registered under Section 6 of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (Modaraba Ordinance). These are:

i. Vanguard Modaraba Management (Pvt.) Limited;
ii. Global Econo Trade (Pvt.) Limited; and
iii. Chenab Modaraba Management.

(ii) Authorisations to Float Modaraba

During the period under review, authorisation was issued to MMCs for floatation of six Modarabas. Details are given in Table 15.

(iii) Merger of Modarabas

The Modaraba Wing has been instrumental in encouraging mergers. During the year, Sindh High Court approved schemes filed by the MMCs for merger of Second Tri-Star Modaraba into First Tri-Star Modaraba and Modaraba Al-Tijarah into Modaraba Al-Mali.

(iv) Registration, Modification, and Vacation of Charges

Rule 27 and 28 of the Modaraba Companies and Modaraba Rules, 1981 (Modaraba Rules) require that every mortgage or charge created by a Modaraba is required to be registered with the Registrar Modaraba. During the period under review, thirty-seven cases of registration, modification, and vacation of mortgages/charges created by various Modarabas were registered and registration certificates were issued.

(v) Appointment of Chief Executive and Directors

In terms of conditions of registration certificate of a Modaraba Company, every Modaraba Company is required to obtain approval for any change in the board of directors. During the period under report, nine approvals for appointment of Chief Executive and Directors were communicated to the Modaraba Companies.

(vi) Appointment of Auditors of Modarabas

Rule 19 of the Modaraba Rules requires that terms of appointment of statutory auditors should be renewed annually with the approval of Registrar Modaraba. During the period under review, the Modaraba Wing approved twenty-eight cases for approval of appointment of auditors.

(vii) Permission to Raise Deposits from General Public on Musharaka Basis

After completing the due process of law, permission was granted to two Modarabas, namely, First National Bank Modaraba and First Punjab Modaraba, to raise funds from the general public through issuance of Certificates of Musharaka.

(viii) Changes in the Prospectus

During the period under report, five requests for insertion of object clauses in the Prospectus of the Modaraba were received. After approval of the Religious Board, the insertion of new business clauses in the prospectuses of the applicant Modarabas was allowed.

In addition, proposals for insertion of business clauses to undertake real estate business activities were received from three Modarabas and the cases were submitted to the Religious Board for consideration. The Religious Board approved the said business clauses allowing the Modarabas to undertake real estate business but with prior permission of the Registrar (Modarabas)/Commission.

8.4.3 VPS

(i) Consultations

For smooth implementation of the VPS, the Commission initiated a consultative process with the market under which a series of seminars were held in Karachi, Lahore and Islamabad. Based on the feedback received, tax treatment of VPS was modified through the Finance Act, 2006. The scope of VPS was also expanded and the contribution cap was removed. Provisions were also made to account for participants' disability or death.

(ii) Awareness Raising Activities

In view of the fact that private pension is a new area in the country, the Commission made a conscious effort for creating market awareness. In this regard, the Pensions Wing organized an international conference on "Voluntary Pension Systems-Prospects and Future Challenges" on 9 December 2005 in Islamabad. Experts on pensions from around the world including India, Ireland and USA participated in the conference and shared their experiences regarding development and reforms in pension sectors around the world.

The Pensions Wing and the World Bank also jointly hosted an international workshop on "Re-Thinking Pension Provisions in Pakistan" in Lahore on 14-15 April 2006. This brought together the key stakeholders including Ministry of Finance, Ministry of Labour, Employees Old-Age Benefit Institution, all the provincial finance departments, and key market participants. In this two-day workshop, experts on pensions from India, Turkey, and Latin America made presentations along with prominent local speakers.

(iii) Guidelines

During the year, the Commission issued guidelines on Investment Policy, Allocation Policy, and Fit and Proper Test (Criteria) for Chairman/Chief Executive, Board of Directors, and other key employees of a Pension Fund Manager registered under the VPS Rules.

The Pensions Wing is in the process of finalising guidelines for registration of a Pension Fund Manager, authorisation of Pension Fund, and registration of the Trustee.

(iv) Processing of Application

Applications submitted for the grant of registration to act as Pension Fund Manager were also screened as per the criteria developed for this purpose by the Commission i.e. the Fit and Proper Test. The work on processing of five applications received so far for registration as Pension Fund Manager was at an advanced stage at the end of the reporting period.

8.5 Monitoring and Enforcement

8.5.1 NBFCs

(i) On-site Inspections

On-site inspections under the terms of Section 282I of the Companies Ordinance were undertaken for analysing the affairs of (i) Crescent Standard Investment Bank Limited (ii) Escort Investment Bank Limited (iii) Pakistan Industrial and Commercial Leasing Limited (iv) Speedway Fondmetall (Pakistan) Limited and (v) Abamco Limited

Inspections of these entities were carried out to gauge the true financial health, review performance of the management and the Board, and assess compliance with prevailing regulatory framework. Inspections of two entities were undertaken to investigate complaints received from various quarters and to assess the factual position. As a result of these inspections, the Commission diligently pursued avenues to rectify mismanagement of these NBFCs. Under the terms of Section 265 of the Companies Ordinance, investigation proceedings were also initiated against four mutual funds for defrauding its members. These investigations were ongoing at the end of the reporting period.

(ii) Off-site Examination of Audited Accounts and Periodical Returns

Annual audited accounts and other periodic statements of some companies were examined during the year to ensure compliance with the NBFC Rules, Prudential Regulations for NBFCs, Companies Ordinance and IAS notified by the Commission in terms of Section 234 of the Companies Ordinance. On the basis of the examination, appropriate proceedings were initiated against non-compliant companies.

The latest accounts of NBFCs seeking renewal of licenses were also examined, as per the prevalent practice, at the time of renewal of licenses to ensure compliance with the regulatory framework.

(iii) Specialised Companies Returns Submission and Compliance System

During the year, the NBFCD continued to receive printed periodical returns in weekly, fortnightly and monthly frequency from NBFCs, mutual funds, and Modaraba sector as per various provisions of applicable laws and regulations. In order to streamline the frequency of returns through electronic means and their effective processing by the Commission, development of an information system named Specialised Companies Returns Submission and Compliance System was initiated during the period under review.

The system would be a collection of analytical tools designed to provide the Commission with an integrated approach to screening and analyzing the financial condition of companies. This will contribute towards detection of early warning signals emanating from the financial data and timely initiation of corrective measures where necessary. The system would not only lessen the information submission burden on NBFCs but would also enhance the analytical ability of the NBFCD to extrapolate meaningful information from statements.

Until the formal activation of the system, the requirement for fortnightly and monthly returns was replaced with comprehensive weekly returns in case of investment advisors, asset management companies and investment banks.

(iv) Show Cause Notices

During the period under review, several show cause notices were issued by NBFCD under various sections of the Companies Ordinance and NBFC Rules. The details of these cases are given in Table 16.

(v) Orders

During the period under review, the NBFCD issued eight orders and two letters under Section 282J and M of the Companies Ordinance. The said correspondence included those that had been issued for disposing off three show cause notices issued during the past year and six during the year under review.

8.5.2 Modarabas

The monitoring and surveillance activities were further augmented during the period under review. The Modaraba Wing maintained effective off-site monitoring of the sector by reviewing periodic returns and annual audited accounts. Some activities and outcomes are given herewith:

(i) Show Cause Notices

Show cause notices were issued to nine Modaraba companies for violating various provisions of the Modaraba Ordinance and Modaraba Rules. The notices mainly pertained to the violations of Prudential Regulations, non-filing of accounts and mismanagement of the Modaraba Fund by the MMCs.

(ii) Orders

Orders under Section 32 of the Modaraba Ordinance were passed by the Registrar (Modarabas) in the case of six Modarabas and penalties amounting to Rs. 625,000 were imposed on the chief executive and directors of six Modarabas.

(iii) Winding up of Modarabas

Three cases for winding up of Modarabas were filed with the Modaraba Tribunal under Section 23 of the Modaraba Ordinance.

(iv) Warnings

Warnings under Section 32 of the Modaraba Ordinance were issued to three Modarabas for non-compliance with the provisions of the Prudential Regulations for Modarabas.

(v) Inspection Orders

The Registrar (Modarabas) ordered an inquiry into the affairs of two Modarabas by appointing inspectors under Section 21 of the Modaraba Ordinance. On receipt of inquiry report, show cause notices were issued to the MMCs and their directors.

(vi) Revival/Rehabilitation of Modarabas

The proposals for revival of First Schon Modaraba and Unicap Modaraba were submitted by the relevant sponsors. Examinations and evaluations of these were in process at the close of the year under review.

8.6 Miscellaneous

8.6.1 Sharing of Information

Different statistical data was provided to various Government Ministries, SBP, IOSCO, and other foreign agencies such as the World Bank. In addition, information on financial crimes identified during on-site inspections were shared with the National Accountability Bureau to assist them in their investigative processes.

8.6.2 Investor Complaints

During the period under review, 386 complaints were received from investors; these pertained mainly to the following issues:

- non-receipt of dividend warrants;
- delay in transfer of certificates; and
- non-receipt of annual and interim accounts

Immediate and appropriate actions were taken on all complaints received during the period under report.

8.7 Annual Plan

8.7.1 Work in Process

(i) Review of NBFC Rules

During the period under review, NBFCD initiated the process of amending the NBFC Rules. The amendments are aimed at removing ambiguities, addressing requirements of market participants, facilitating operators and safeguarding interest of investors. The draft rules have been discussed with the industry associations and will be notified for public opinion after approval by the Commission.

(ii) Real Estate Investment Trust Rules

REITs are a new asset class that allow household investors to invest in the real estate market through pooling of funds, in a manner similar to mutual funds. The product was designed to provide an alternative asset class to financial markets while, at the same time, provide a boost to the real estate industry through an organised and well-regulated method of development. Internationally, the product is driven by a unique tax-transparent system and the principle of broad-based ownership.

The Commission drafted the regulatory framework for introducing REITs in Pakistan. The rules were finalised by the Commission during the reporting period and would be notified shortly.

(iii) Private Equity and Venture Capital Rules

Private equity and venture capital funds provide an alternate asset class to financial markets with an architecture of risks and returns that is completely different from publicly available conventional financial products. In addition, these funds are also expected to provide the necessary management expertise and financial facilities to companies where traditional financing facilities are not available.

In order to boost investments and allow a liberal avenue to investors seeking opportunities in start-up companies, venture capital, and other such areas, the Commission began work on framing the Private Equity and Venture Capital Rules.

(iv) Modarabas

(a) **Amendments in the Modaraba Ordinance and Rules:** Proposals for amendments in the Modaraba Ordinance were being finalized so as to improve governance and monitoring, protect the investors and remove bottlenecks allowing for growth of this sector.

(b) **Deferment of Applicability of IAS 17 to Modarabas:** In view of the practical difficulties being faced by the Modaraba Sector, the Commission deferred the applicability of IAS 17 to Modarabas. During the year under review the applicability of the said IAS was reviewed and the Modarabas were allowed to prepare their accounts for the year 2006 without applying the requirements of the said standard to the Modarabas.

(c) **Custody of Share/Certificates:** In order to prevent the affairs of any Modaraba being conducted in a manner detrimental to the interests of the certificate holders, all Modaraba Companies were directed to place Modaraba Company's shares or Modaraba Certificates either with the Registrar (Modarabas) in the Commission or in an account at the CDC.

(d) **Meetings of the Religious Board for Modarabas:** During the period under review, four meetings of the Religious Board constituted for Modarabas under Section 9 of the Modaraba Ordinance were convened. Various matters pertaining to floatation of new Modarabas and draft agreements for conducting new businesses by the existing Modarabas were approved during these meetings. The Religious Board also examined the overall performance of the Modaraba sector and recommended various steps for improving the same.

(v) Voluntary Pension System

The Commission was in the process of finalising the guidelines for streamlining the operations of pension fund managers and trustees to be involved in the Voluntary Pension Schemes in Pakistan at the end of the reporting period.

8.7.2 Future Plans

(i) NBFCs

- Promulgation of the regulatory framework for REITs. In this respect, a task force headed by the Adviser to the Prime Minister on Finance and Revenue has been created to remove any hurdles in creating such an environment for REITs in Pakistan. Active liaison would be maintained with the provincial governments and ICT to create an enabling environment, both legal and fiscal, for REITs.
- Promulgation of the regulatory framework for private equity and venture capital funds. Moreover, an enabling environment will be created for these asset classes.
- Amendments to the NBFC Rules drafted in consultation with the stakeholders and in light of international best practices will be promulgated.
- Formulation of an independent NBFC Law so as to overcome the regulatory and enforcement issues being faced under the present set-up where the requirements applicable to NBFCs are divided between the Companies Ordinance and the NBFC Rules.

- On-site inspections of entities, especially deposit raising institutions to determine their true financial health and their compliance level with specific reference to NBFC rules and regulations will be conducted.
- Off-site examination of NBFCs will be carried out to review their periodical returns and pinpoint the violations committed by them and give observations on other risk related issues.
- Computerized quarterly analysis of periodic information, including horizontal and vertical analysis, to assess the financial health of the NBFCs, mutual funds and Modaraba sectors will be carried out.

(ii) Modarabas

- Various amendments have been proposed in the Modaraba Ordinance and Modaraba Rules which, once finalized, will be submitted to the Ministry of Finance for approval.
- Prudential Regulations for Modarabas were issued in January 2004. To remove the practical difficulties being faced by the sector, these would be reviewed and recommendations would be finalized in consultation with the Modaraba Association of Pakistan.
- Statutory registers pertaining to the statements/reports being filed by Modarabas under the Modaraba Ordinance/Modaraba Rules will be updated.
- Various finance agreements being used by Modarabas are being reviewed to bring them at par with the Agreements used by other Islamic financial institutions. The revised Agreements would be submitted to the Religious Board for consideration.

(iii) Pensions

- Feedback obtained during market consultative process highlighted certain anomalies in the VPS Rules; a comprehensive exercise would be undertaken during the year to amend and update these Rules to bring clarity and operational ease for both the participants and pension fund managers.
- Guidelines on record keeping, marketing and advertisement, and distribution would be issued after market consultation through the Advisory Committee.
- Work on development of regulatory framework for private occupational pension and saving schemes would be initiated.

Chapter 9

Insurance Division

Insurance Division

OBJECTIVE: To ensure the protection of the interests of insurance policyholders and to promote sound development of the insurance industry.

9.1 Operational Structure

9.1.1 Structure

Insurance Division (ID) supervises and monitors the insurance industry (including insurance and takaful companies and intermediaries) under the relevant insurance laws. The ID consists of the following Wings:

- Life Insurance
- Non-life Insurance
- Research & Development
- Registration

9.1.2 Management Team

The team is lead by Mr. Shafaat Ahmad, Executive Director who directly reports to the Chairman. He is assisted by a relatively young team of officials including a qualified actuary - Mr. Shoaib Soofi, Director Life in managing the affairs of ID. Professional expertise in insurance is also available to ID in the form of Adviser (Insurance), Dr. Mumtaz A. Hashmi who has been guiding ID on technical issues, training the officials and contributing towards achieving the agreed objectives.

9.2 Laws Administered

i. Insurance Ordinance, 2000
ii. Securities and Exchange Commission (Insurance) Rules, 2002
iii. Federal Government, Insurance Rules, 2002
iv. Takaful Rules, 2005

9.3 Sector Overview

The Pakistan insurance sector, by law, is divided into life and non-life insurance. Composite insurance (i.e. a firm offering both life and non-life insurance) is prohibited under the Insurance Ordinance, 2000 (Insurance Ordinance). Targeting the objective of raising the insurance penetration level (i.e. insurance premium as a percentage of GDP) a potentially unattended area is takaful business (Islamic Insurance) for which a regulatory regime has been notified during the period under review.

As at 30 June 2006, there were fifty-eight insurance companies (including one general takaful operator). Pakistan's insurance market is under-developed relative to its potential. However, in recent years the insurance sector has shown a promising average annual growth exceeding 20 percent. Registering a growth rate of almost 26 percent, total premium of insurance sector increased from Rs.36,662 million in 2004 to Rs. 46,167 million in 2005.

Type of Insurance Company			Number of Companies	
			2006	2005
Life				
	Public		1	1
	Private		4	4
		Total	5	5
Non-Life				
	Public		1	1
	Private		51	51
		Total	52	52
Reinsurance				
	Public		1	1

(i) Life Insurance

During the year under review, total premium of the life insurance sector increased from Rs.14,583 million in 2004 to Rs. 18,552 million in 2005, showing an increase of 27.2 percent. Total assets of the sector have also risen at a rate of 14.9 percent from Rs.123,900 million in 2004 to Rs.142,328 million in 2005.

Total incurred claims have increased at a rate of 11.4 percent from Rs.8,180 million in 2004 to Rs.9,114 million in 2005.

State Life Insurance Corporation of Pakistan though continues to be the market leader, its market share has declined gradually from 87 percent in 2001 to around 75 percent in 2005. Two leading players in private life sector are EFU Life and New Jubilee Life with 13.5 and 7.4 percent share, respectively.

(ii) Non-Life Insurance

Total premium of the non-life insurance sector rose at a rate of 25.1 percent from Rs.22,079 million in 2004 to Rs.27,615 million in 2005.

Total incurred claims, recorded increase of 8.3 percent from Rs.11,089 million in 2004 to Rs.12,004 million in 2005. Key statistics are contained in Table 17.

Top five companies (including public sector National Insurance Corporation) wrote 73 percent of the premium of the non-life sector insurance market.

(iii) Takaful Companies

The takaful regulatory framework was enforced in September 2005, and as at 30 June 2006 there was one takaful company namely Pak Kuwait Takaful Limited, registered as general Takaful operator, which commenced its operations in December 2005.

(iv) Reinsurance Companies

State-owned Pakistan Reinsurance Company Limited (PRCL) is the only reinsurance company in Pakistan. On popular demand from the non-life private sector insurance companies, 30 percent compulsory cession to PRCL was gradually reduced and effective 1 January 2005 it was completely withdrawn; hence, a decline of 20.6 percent in PRCL's premium income from Rs.5,241 million in 2004 to Rs.4,160 million in 2005.

9.4 Performance Review

9.4.1 Development of Laws

(i) Proposed Amendments in the Insurance Ordinance

To strengthen the Commission's role as an effective regulator, the ID reviewed the regulatory framework in light of the recommendations of the independent consultants, as well as discussions with the industry. Proposed amendments have been drafted which would be communicated to the Federal Government, for its necessary action.

(ii) Takaful Rules

In pursuance of the Government's objective of Islamization of the economy, the Commission constituted a task force for making recommendation with regard to developing a regulatory framework to supervise and monitor takaful companies. Based on the recommendations of the task force, the Takaful Rules, 2005 were drawn and notified in September 2005.

9.4.2 Operational Activities of the ID

(i) Circulars

During the year ended 30 June 2006 six circulars on the following subjects for guidance of the industry, were issued by the ID:

- Group Life Insurance
- Market Conduct for Life Insurance Companies
- Rotation of Auditors
- Treaty Reinsurance Arrangements
- Life Insurance Policies through Provident Fund
- Maximum Expense Limits for Life Insurance Companies

(ii) Exercise to Raise Minimum Paid-up Capital Requirement

Protection of policyholders' interest and sound development of the insurance industry are directly dependent on the financial soundness of the insurance companies, and when compared to the neighbouring countries, the minimum paid-up capital requirements in Pakistan are considered very low. In this regard, an exercise was carried out to consider the necessity of raise in the minimum paid up capital requirement for life and non-life insurance (including family and general takaful) companies in a phased manner. This proposal was under discussion with the industry at the end of the reporting period.

(iii) Actuarial Valuation Basis

The ID, in consultation with the Pakistan Society of Actuaries and the industry, has finalised actuarial valuation basis for life insurance policyholders' liabilities and the draft awaits its notification.

(iv) Registration of New Insurance Companies

During the reporting period, seven parties showed interest in establishing insurance/takaful companies who were given consent by the ID for necessary incorporation under the Companies Ordinance, a necessary first step before commencement of the formal registration process.

(v) Registration of New Insurance Brokers

Following issuance of licence to act as an insurance broker to a fresh applicant, there were two registered insurance brokers in Pakistan, as on 30 June 2006.

(vi) Registration of New Insurance Surveyors

During the reporting period, 213 companies were issued licences to act as insurance surveyors and 148 individuals were registered to act as authorized surveying officers.

(vii) Creation of a temporary Complaint Cell

As required under the Insurance Ordinance for the Federal Government to establish the Insurance Ombudsman Office to attend to any mal-administration on the part of insurers in dealing with the policyholders, a complaint cell was established in the ID during the year. This cell not only maintained complete records of all complaints received but also acted in addressing the grievances. The idea of this makeshift arrangement was to ensure smooth transfer of all insurance related complaints to the Insurance Ombudsman upon his appointment, which took place in May 2006.

(viii) Self-Assessment of Insurance Core Principles

During the year under review, self-assessment of first five Insurance Core Principles of the International Association of Insurance Supervisors (IAIS), was carried out by the ID and submitted to the IAIS.

9.5 Initiatives/Plans

- To work towards materialising the suggested amendments in the Insurance Ordinance.
- For further strengthening of the existing legal framework encompassing the Insurance Ordinance and the rules framed thereunder, to continue revisiting the same by identifying anomalies/shortfalls for amendments.
- To materialise the proposed raising of the minimum paid-up capital requirements to Rs.500 million (life assurance/family takaful) and Rs.300 million (non-life insurance/general takaful), for new entrants. However, the existing insurer/takaful operator would be allowed to meet the requirements in a phased manner.
- To enable electronic filing of returns, complete the on-going insurance regulation software development.
- To review the minimum solvency requirements, including allocation of investments, criteria for admissibility of assets, and reporting on solvency by insurers as part of the regulatory accounting returns.
- To review and strengthen the Takaful Rules, 2005 via adequately addressing the anomalies/shortfalls identified from time to time.
- For availability of insurance protection to less privileged people of the society, to develop a regulatory framework to mandate micro-insurance for both public and private sectors insurers.
- *Bancassurance* (a French word means an arrangement of selling insurance via banks who act as distribution channel for the insurers to sell their insurance products), is gradually spreading in Pakistan. *Bancassurance* has not been defined in the Insurance Ordinance and there are issues of regulatory nature. To this effect, identify the areas of concern with regard to policyholders' interests and initiate corrective measures.
- Transitional period of five years provided in the Insurance Ordinance for the conversion of all those who at the time of its promulgation were registered as insurance surveyor under the repealed Insurance Act 1938, has ended on 18 August 2005. However, a good number of the insurance surveyors did not act promptly. Further, anomalies and weaknesses in the applicable rules and inconsistencies therein with the relevant sections of the Insurance Ordinance have been identified. Therefore, to appropriately review and amend the rules pertaining to the insurance surveying.
- To focus on improving the level of ID's compliance/observance of the insurance core principles of IAIS.

Chapter 10

Legal Department

Legal Department

OBJECTIVE: To manage the legal affairs of the Commission, provide prompt legal advice to each operational Division and effectively manage all litigation by and against the Commission.

10.1 Structure

The Legal Department (LD) has been functioning as a department of the Commission since December 2004 when all the legal staff was centralised in the LD and then tasked with the responsibility to manage the legal affairs of the Commission. The LD reports directly to the Chairman. It is divided into three wings; advisory, litigation and legislation.

10.1.1 Management Team

The LD is headed by an Executive Director, Ms. Amber Darr, a Barrister qualified from both the US and UK, possessing extensive experience of a broad range of practice areas. The Wings are supervised by Joint Directors with relevant expertise; they are assisted by a team of lawyers possessing a variety of professional experience and good academic qualifications.

10.2 Performance During the Year

10.2.1 Advisory Wing

(i) Internal Advice

During the course of the year, the LD advised the operational Divisions and Departments on a number of wide-ranging and important areas such as Special Purpose Vehicles (SPV); Section 224(2) of the Companies Ordinance; whether a provisional manager of a Modaraba appointed under Section 314(4) of the Companies Ordinance is a manager of the Modaraba in place of its Board of Directors; applicability of Section 208 of the Companies Ordinance to non-banking finance companies (NBFC); applicability of the Voluntary Pension System Rules, 2005 (VPS Rules) issued under the Companies Ordinance to life insurance companies; the exercise of powers by inspectors under Section 266 of the Companies Ordinance; and whether the objects of a not-for-profit association fall within the remit of Section 42 of the Companies Ordinance.

(ii) External Advice

The LD is often referred work of an advisory nature by the Federal Government where they seek the Commission's expertise on issues pertaining to the corporate and securities market sector.

During FY2006, the LD assisted the Ministry of Finance on the Political Risk Guarantee Facility under the FMGP.

(iii) Vetting of Contracts and Agreements

The Advisory Wing is also entrusted with the task of drafting or vetting contracts, agreements and Memoranda of Understanding to be signed by the Commission.

10.2.2 Litigation Wing

The LD manages all litigation filed on behalf of or against the Commission in consultation with the concerned operational Divisions. The Litigation Wing is involved at all stages of the litigation process, whether it entails providing a legal opinion as to the merits of the case, appointing counsel and settling fees, vetting show cause notices, pleadings, etc. or providing written comments in respect of the same.

(i) Litigation

During the year under review, fifty cases were concluded of which the Commission won forty-five and lost five. Appeals have been filed against the lost cases. As at 30 June 2006, 281 cases were pending in various courts, of which the Commission is appellant in 105 cases and a respondent in 176 cases. A synopsis of the cases is given in Table 18.

(ii) Adjudication

The Litigation Wing is also responsible for vetting and, where requested to do so, drafting notifications, circulars and notices on behalf of the Commission.

10.2.3 Legislation Wing

The Commission is continuously updating the regulatory framework to address rapid changes. The LD facilitates the operational Division or Department leading the reform process in formulating relevant legislation.

During the year, the Commission, in association with international consultants engaged under the FMGP, undertook an extensive review of the legislation administered by it with a view to strengthening the regulation, enforcement and governance of non-bank financial markets. The LD, together with the concerned operational Division or Department, has been entrusted with the task of finalising the new legislation or amendments to existing legislation.

(i) New Draft Legislation

The LD provided assistance to the following legislative initiatives which are pending enactment:

- Netting of Financial Contracts Act;
- Financial Services Commission Act;
- Securities Act;
- Futures Trading Act;
- Employees Provident Fund (Investment in Listed Securities) Rules;
- Registrar to an Issue and Securities Transfer Agent Rules;
- Listed Companies (Substantial Acquisition of Voting Shares and Take-over) Rules;
- Commodity Exchange and Future Contracts Rules;
- Debenture Trustee Rules;
- Associations Not-for-Profit (Licensing and Corporate Governance) Rules; and
- Public Sector Companies (Corporate Governance) Rules.

(ii) Amendments to Existing Legislation

The LD was involved in the amendment of the following laws, rules, etc.:

- Companies (General Provisions and Forms) Rules, 1985;
- Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003; and
- Central Depository Company Limited Regulations, 1997.

(iii) Legislation referred to the Commission by the Federal Government

During the reporting period, the LD reviewed the Umrah/Hajj/Ziaraat Organisers Services Regulation Act, 2006 upon referral from the Ministry of Finance.

(iv) Advice on Legislative Issues

The Legislation Wing also provides advice on issues pertaining solely to legislative matters. The LD has advised, *inter alia*, on:

- registration and operationalisation of the National Commodity Exchange Limited (NCEL);
- the options available to effect the demutualisation of the stock exchanges; and the impact of existing tenancy laws on Real Estate Investment Trusts (REIT).

Officers of the LD also undertake certain activities which are additional to their regular duties within the LD.

10.2.4 Corporate Laws Review Commission

The Commission established a Corporate Laws Review Commission (CLRC) in November 2005 under the leadership and guidance of former Chief Justice of Pakistan Mr. Justice (Retd) Ajmal Mian, and comprising eminent members of the legal, accountancy and business community to carry out a holistic review of the Companies Ordinance.

The Executive Director (Law) is the Secretary to the CLRC and assisted by other employees of the LD, acts as the Secretariat to the CLRC. In May 2006, the CLRC presented a Concept Paper to the Commission which aims to provide direction for the review of the Companies Ordinance.

10.3 Annual Plan

Since its inception, the LD has achieved its initial goals of providing a streamlined service and work. However, the LD recognises the need to continue to develop legal expertise in line with international best practices. To this end, it plans to enhance training for lawyers working within each wing and enhance access to legal resources (i.e. reference books and access to electronic journals/databases, etc.) for the staff within LD.

Further, one of the LD's major goals over the coming year is to enhance the legal capabilities within each CRO for both advisory and litigation matters. In this regard, the LD intends to build a small legal team in the Commission's regional office in Karachi and assign or recruit (where necessary) a lawyer for each CRO.

Chapter 11

Support Services Division

Support Services Division

11.1 Operational Structure

Objective: *To facilitate discharge of statutory functions by other Divisions of the Commission by providing human resources, information technology and finance/accounts.*

11.1.1 Structure

The Support Services Division (SSD) is responsible for facilitating the overall operations of the Commission and ensuring its smooth functioning. It has been organized into the following departments:

- Human Resources and Training
- Finance and Administration
- Information Systems and Technology

11.1.2 Management Team

The SSD works under the direct supervision of the Chairman. Mr. Javed K. Siddiqui, Executive Director heads the Finance and Administration Department.

Mr. Arshad Javed Minhas, Executive Director, heads the Information Systems and Technology Department.

Mr. Mansur Ahsan, Executive Director heads the Human Resource and Training Department.

11.2 Human Resources and Training Department

The Human Resources and Training Department (HR&T) is responsible for facilitating the overall HR operations of the Commission to strengthen the capabilities of human resources and to ensure the transfer of skills to enable building of talent pool.

It has been structured into the following Wings:

- Human Resources Wing
- Training Wing

The HR Wing is responsible for various activities that include:

- manpower planning;
- recruitment, staffing, retention and separation;
- performance management and promotions;
- developing HR policies and procedures;
- managing employee benefits and compensation;
- maintaining personnel records;
- coordinating with other departments in connection with staff development; and
- processing employee promotions, transfers, retirements and dismissals.

11.2.1 Recruitment and Selection

During the period under review, the Commission hired several officers with expertise in different disciplines like business administration, accountancy, and law. Details of professionals inducted during the year are illustrated in Table 19.

11.2.2 Young Professionals Induction Scheme

In order to meet the continuous and growing human resource needs, every year the Commission hires young and dynamic people holding master's degrees in subjects relevant to the Commission's functions at entry level. The scheme was updated during the period under review and titled "Young Professionals Induction Scheme" (YPIS), replacing the Junior Executive Induction Scheme.

YPIS aims to attract recently qualified competent young postgraduates and to provide them fast track career at the Commission. The YPIS, when advertised in January 2006, approximately 800 applications were received. Officers under this scheme are in the process of being appointed.

11.2.3 Training

The Training Wing ensures continuous capacity building of employees of the Commission through need-based, tailor-made programs.

During the period under review, the Wing, in collaboration with consultants engaged under the FMGP, organized capacity building training programs for the officers of the Commission as well as market participants. Consultants/Experts of international repute shared their experiences and discussed scenarios and dynamics of international as well as local market. The programs aimed at the development of expertise and the fostering of better understanding across a range of capital market related subjects.

11.3 Finance and Administration

10.3.1 Finance

The Finance Wing is responsible for directing and controlling the areas of accounting, financial reporting, treasury management and budgeting. A multi-user accounting software is being used for the maintenance of books of accounts and a sound accounting system is in place. The Finance Department works within a transparent and effective internal control system. Moreover, policies and procedures are well documented, regularly reviewed and improved upon, and consistently adhered to.

The Finance Department follows the relevant requirements of the SECP* Act in processing payments, recording transactions, and preparing and maintaining books of accounts.

11.3.2 Administration

The Administration Wing provides a wide range of support services to manage the Commission's facilities and assets, including, transport; equipment; office supplies; furniture and fixture; hiring and maintenance of office premises; maintenance of assets; mail receipts and deliveries; printing of reports; and other allied matters. It has been extensively engaged in developing a conducive environment for Divisions at the head office of the Commission and for CROs to efficiently discharge their duties.

11.4 Information Systems and Technology

11.4.1 Structure

The Information Systems and Technology Department (IS & T) provides a range of services for various management support functions, specialized applications, MIS applications and managed workstations. Major areas of operations include software systems and database maintenance and development; website and intranet engineering and maintenance; Local Area Network (LAN)/Wide Area Network (WAN) connectivity and central services; managed workstation services; hardware maintenance services and training in information technology (IT) products and services.

The division has been informally divided into Systems, Network and Security, Disaster Recovery, Software, and databases and data warehousing wings.

11.4.2 Performance Review

Most current and forthcoming projects of the Commission like the e-Services, Scanning and Archiving of documents, Disaster Recovery Centre, ERP, Insurance Industry Regulatory System and Market Monitoring and Surveillance are driven by IT. The Commission has been awarded the ISO 9001:2000 Certification for its Information Systems and Technology Department. The Federal Minister for IT, Mr. Awais Ahmad Khan Leghari, awarded the certificates to the Commission's officials in a ceremony organized by the Pakistan Software Export Board (PSEB). The IS & T initiated the certification project in collaboration with the financial assistance of PSEB and the Ministry of IT and Telecom. The main goal of the project was to ensure that the processes being followed by the IS & T were based on internationally recognized quality standards. Consultancy services for the project were obtained from NUST Consulting and the final audit was conducted by Moody International before recommending the Department for the certification.

11.4.3 IT Projects and Initiatives

One of the main objectives of the IS & T is to maximize the automation of functions and general services at the Commission without excessively straining its financial resources. In this regard, some of the external partnerships formed by the IS & T are with E-Government Directorate (EGD) and ADB, which are funding the development and implementation of various IT-based projects at the Commission. Some of the major projects being carried out at the Commission during the period under review are as follows:

(i) E-Services Project

The E-Services project is a major initiative of the Commission being funded by the E-Government Directorate. E-services will enable all regulated companies to submit required documents/information electronically using a pre-defined format through a web portal provided by the Commission. The companies can submit their annual and quarterly returns online, which can then be archived, removing chances of erroneous returns. The system will also reduce undue paper work and improve various processes within the Commission. The features of the system for internal benefit include implementation of workflow environment, business process analysis, document analysis, human resource analysis and business activity monitoring and tracking etc.

The project is currently in the implementation phase. Some of the business processes of the Commission were ready for deployment and the training of the end users was being carried out simultaneously as these processes went 'live'.

(ii) E-Surveillance Project

In order to translate high-level objectives of a competitive market characterized by fairness, efficiency and liquidity, the information for measuring performance and monitoring activity has to be readily available on real time basis. The Commission is in the process of procuring a Market Surveillance Solution as the preferred source for reliable market data and online alert generation to monitor market activity.

In this regard after extensive research carried out jointly by IS & T and MSW along with the advice of independent consultants under the FMGP TA, a solution which meets requisite objectives has been selected. A pilot of the solution is in the process of being implemented.

(iii) Database Clustering and Storage Consolidation Project

This project has been funded by the ADB under the FMGP TA. The RAC solution obtained provides the basic infrastructure for a stable foundation for business process management, electronic transactions, and business intelligence. In addition, it also provides high levels of availability, exceptional performance, scalability, data integration, end user productivity, and flexibility in a changing environment. The project has delivered a sound back-end database management platform for the various applications deployed at the Commission.

(iv) Scanning and Archiving Project

The main goals of the project are to scan and archive all the documents and files being used for day to day reference and decision making at the headquarters as well as all the CROs. In addition to scanning and archiving, scanned images of the files will be searchable, based on metadata stored with the archived images. This solution will, in turn, be integrated with the E-services system in order to enable end to end digitalization at the Commission. The implementation of the project is scheduled to start shortly.

(v) ERP Project

The main goals of the project are to automate and integrate the financial, payroll, and human resource management functions of the Commission. The project is currently in the planning phase.

(vi) Disaster Recovery Centre

Every business and organization can experience a serious incident or occurrence which can prevent it from continuing normal operations. This can happen any day at any time. The potential causes are many and varied like flood, explosion, computer malfunction, accident and many more. IS & T has always foreseen the business continuity needs of the organization. Keeping in view the above, IS&T is undertaking the establishment of the Disaster Recovery centre to provide high availability of its Internet and Intranet applications for the Commission's employees and citizens of Pakistan; it will be established in Karachi.

(vii) Insurance Industry Regulatory System

The ID has two main objectives i.e. to ensure the protection of the interests of insurance policyholders and to promote sound development of the insurance industry.

The Insurance Industry Regulatory System (IIRS) is being developed to facilitate the ID to carry out its functions. The IIRS would be a collection of analytical tools designed to provide the ID with an integrated approach to screening and analyzing the financial condition of insurance companies operating in the country. The project is currently being implemented.

For the purpose of procuring data warehouse solution, IS & T has already prepared the PC-I and sent it to EGD for approval. Work on the project is expected to initiate soon after approval.

11.4.4 Annual Plan

(i) Work in Progress

Development Activities: A number of activities are being carried out by the IS & T. These include the development and maintenance of a number of IT systems and projects. Some of the major developmental activities are given below:

(a) Resume Submission System
This system is used for receiving online resumes and provides automated short-listing procedure, based upon the candidates input.

(b) Document Tracking System
This system keeps track of the actions taken on documents received at the Commission along with time taken to respond to them.

(c) Legal Opinion Management System
This system maintains record of legal opinions and replies to legal queries sent by all Divisions to outside parties. It helps in tracking opinions given by the commission on different occasions and in ensuring consistency of opinions on an issue.

(d) Brokers and Agents Registration System
It is an automated system for close vigilance of activities of brokers and agents and seeks to facilitate enforcement of Commission's regulatory functions.

(e) Purchase Management System
The system has been developed for the Finance and Administration Department to automate the purchase function.

(f) Inventory Management System
It is one of the key systems of Enterprise Resource Plan and addresses the difficulty previously encountered in manually handling data and maintenance of inventory records.

(g) Court Case Database
This database keeps track of all cases filed by or against the Commission in various courts of law and maintains an up-to-date status of each case.

(h) Intranet of IS & T
The intranet site referred to as 'IntraIT', holds key organization wide information for the employees of the Commission. It also acts as a portal for an automated, paperless environment and disseminates information and knowledge on valuable uses of IT.

(i) Intranet for Human Resource and Training Department
This is an initiative to share information relating to human resource matters with employees of the Commission. The portal contains links for editing personnel profile, claiming reimbursements as well as viewing notable events.

(j) Intranet for Legal Wing
An intranet portal for Legal Wing has been developed that is information-rich and integrated with other applications developed for the Wing

(k) Enhancement of Enforcement and Monitoring System
Enhancement into the existing enforcement and monitoring system provides for initial review of accounts, decision support feature, submission of returns and detailed examination of accounts etc.

Infrastructure Enhancement: In order to cater to the continuously evolving requirements and enhancements in the existing infrastructure and to ensure accommodation for all existing and future processing needs, the following activities have been carried out for infrastructure enhancement:

(a) **Server Consolidation**
With increased load and processing requirements on the Commission's Servers due to increased staffing and resource demanding applications, server consolidation has been carried out. This will ensure centralization, data integrity, and application integration and reduced infrastructure costs to Commission.

(b) **Network Security Enhancements**
With increased number of staff, data processing and sensitive applications, security is one of the most important considerations. For this purpose, an elaborate Intrusion Detection and Prevention system has been commissioned to ensure protection of data.

(c) **Network Expansion**
With number of new applications connecting various CROs with the Commission's head office and increased number of staff using such applications the network has been expanded to allow for increased number of users to access data without least amount of delay.

(d) **Help Desk**
Help Desk is an important feature of any organization wide IT department. The Help desk with its state of the art complaint receipt, management and tracking system ensures minimum response time to any and all requests.

(e) **Physical Access Control Systems**
The Commission did not have any Physical Access Control System for preventing, monitoring intrusion and unauthorized access, time and attendance and visitors management in its premises. This system is collection of Proximity readers for authentication, TCP/IP converters for logging records to database in real-time and server for running database services. The system is capable of assisting the Commission in monitoring and preventing unauthorized access and time and attendance of the employees of the Commission. All employees will be provided with proximity cards to enter or exit from their respective floors. Multiple type of reports will be generated by the application running on the server which will consists of the details about the present / absent status, employee location indication, total working hours in a month, total visitors time and total out of office time during working hours etc.

11.4.5 Future Plans

Future projects of the IS & T include but are not limited to the following:

(i) Data Warehouse Project

The Commission has commenced work on designing a data warehouse for analysis and strategic decision making. For this purpose, the Commission would deploy a system which could generate reports dynamically and help in assessing regulatory and policy implications. The objective would be to empower users in various divisions and departments to work on the data warehouse from their operational requirements point-of-view for generating various reports and attendant implications.

By building a data warehouse and introducing business intelligence applications/tools, employees can use the data to support enterprise level decision-making and appropriate information could be disseminated to the stakeholders.

For the purpose of procuring data warehouse solution, IS & T has already prepared the PC-I and sent it to EGD for approval. Work on the project is expected to initiate soon after approval.

(ii) Capacity Building and Training Needs

IS & T regularly carries out various trainings according to the training need analysis of the staff at the Commission. This includes, but is not limited to, training of IT staff at CROs, end user trainings, capacity building at IS & T and preparation of training manuals and interactive CDs for the purpose.

(iii) Network Vulnerability Assessment Tools

Considering the aim of providing most of the Commission's services online, it is becoming increasingly important to enhance level of security at servers, databases and online websites etc. For this purpose, the IS&T intends to acquire network vulnerability assessment tools to ensure security management, network fault management and troubleshooting infrastructure. It will help analyzing information and will also help in ascertaining the future requirements.

(iv) Information Security Audit

Based upon the requirements of both external auditors and IS & T, information security audit will be carried out to ascertain the current security scenario and identify any requirements for adding onto the same.

(v) Video Conferencing

The Commission intends to establish a video conference facility between its head office and CROs at Karachi and Lahore. The facility may be extended to other offices in future and therefore the system being proposed is scalable.

Chapter 12

Professional Services and Policy Division

Professional Services and Policy Division

OBJECTIVE: To regulate and promote professional services and introduce policies to attain the aims and objectives of the Commission.

12.1 Operational Structure

12.1.1 Structure

The Professional Services and Policy Division (PSPD) was established to centralise both the policy making and professional services function of the Commission. The PSPD was entrusted with responsibilities pertaining to professional services, regulatory policies and capital market development. Subsequent to the close of the year, the PSPD was merged with various Divisions of the Commission such that each Division would have an independent Policy Wing within it.

As of the close of the year under review, the PSPD encompassed the following two Departments.

(i) Professional Services Department

The Professional Services Department (PSD) regulates and promotes development of Professional Bodies and SROs in the fields of accountancy and corporate secretary-ship. It also regulates credit rating companies.

(ii) Policy Department

The core responsibility of the Policy Department (PD) is to suggest policies regarding functions of the Commission. In this regard, the PD is responsible for conducting research and reporting on national and international best practices in corporate and capital market matters to the Commission, reviewing existing policies, and assisting in the development of future policies.

12.1.2 Management Team

As of the close of the year under review, the PSD was headed by Mr. Muhammad Ishaq Mallal, Director while the PD was headed by Syed Fayyaz Mahmud, Director. Both are seasoned professionals having more than thirty years experience and serve under the direct supervision of the Chairman.

12.1.3 Laws Administered

i. Chartered Accountants Ordinance, 1961
ii. Credit Rating Companies Rules, 1995

12.2 Performance Review

The PSPD undertook focused assignments required of it to improve the regulatory framework exercised by the Commission and to enhance oversight of professional services.

A summary of these activities is given hereunder.

12.2.1 Applicability of Islamic Financial Accounting Standards - I "Murabaha"

Banks and financial institutions in Pakistan had felt the need for financing different sectors of the economy through modes in accordance with the Shariah. In its judgment on Riba, the Shariah Appellate Bench of the Supreme Court had directed ICAP to play a proactive role in Islamisation of economy. In compliance with the said directive, ICAP constituted a Committee on "Accounting and Auditing Standards of Interest-Free Modes of Financing and Investment". The Committee, after thorough consultation with banks, financial institutions, and SBP, developed "Islamic Financial Accounting Standard on Murabaha Transactions" (IFAS-I). Thus, Murabaha came out as a possible transitory step towards Islamisation of the economy. The Commission issued S.R.O. No. 865, dated 24 August 2005, requiring that the IFAS-I would be followed in regard to financial statements prepared in the context of historical cost convention when accounting for Murabaha transactions undertaken by banks and financial institutions.

12.2.2 Study on Modaraba Sector Performance

A study was carried out to ascertain why Modarabas have not been performing up to their full potential. The report and recommendations regarding remedial measures to help revive the instrument of Modaraba was submitted for further consideration.

12.2.3 Qualifications for Research/Financial Analyst

A study was conducted regarding the role of research/financial analysts in the capital market and qualifications required for such analysts. Institutions granting certificates to analysts, their requirements, the related code of ethics/conduct, and the international regulatory framework/licensing requirements for analysts were also identified.

12.2.4 Basis of Calculation of Free Reserves for Issue of Bonus Shares

The Capital Issues Rules require retention of part of free reserves while issuing bonus shares. The issue as to the period of accounts which should form the basis for the calculation of free reserves for issuing bonus shares had come up for consideration.

An extensive research was carried out to ascertain the global practice and the opinion of the PSPD was provided to the concerned Department for guidance.

12.2.5 Research Regarding Tax Incentive for Dividend Declaring Companies

A research study on tax incentives allowed in various jurisdictions on dividends declared by companies was carried out. Based on the findings, PSPD proposed a tax incentive for dividend-paying companies and sent it to the Central Board of Revenue (CBR). However, the CBR did not agree to the proposal, claiming that unfettered discretion should remain with company's management to determine the declaration of dividend.

12.2.6 Asset Managers' Code of Professional Conduct

A draft code of conduct for Asset Managers was prepared in accordance with international practices and was under further consideration in the SCD.

12.2.7 Research into Mutual Funds

The PSPD carried out research into several factors regarding mutual funds, including fees and expenses, and disclosures in annual and interim reports etc. in various jurisdictions. A draft working paper containing suggestions of PSPD pertaining to various amendments proposed in the Draft Amendments to NBFC (Establishment and Regulation) Rules, 2003 along with background research material was made available to the NBFCD for further consideration and appropriate necessary action.

12.3 Sector Overview

12.3.1 Credit Rating

The concept of credit rating is receiving increasing importance in Pakistan. Currently, two credit rating companies - Pakistan Credit Rating Agency Limited and JCR-VIS Credit Rating Company Limited-are functioning to assign ratings to entities and instruments.

During the year under review, the credit rating companies issued 218 ratings for various companies. To streamline the rating process, the Commission keeps a constant watch over the activities of these companies.

12.3.2 Accountancy Profession

The profession of chartered accountancy in Pakistan is self-regulated by ICAP under the Chartered Accountants Ordinance, 1961. As on 30 June 2006, the membership of ICAP was 3,912, of which 829 members were working overseas. During the year under review, ICAP admitted 321 new members. As a SRO, ICAP also takes disciplinary action against members in cases of negligence or misconduct identified/reported. In order to ensure that the members of ICAP maintain the highest ethical and technical standards, a Quality Control Review Program remains in effect by ICAP. ICAP also has a Financial Statements Review Program under which a review of financial statements of listed companies is carried out.

12.4 Development of Laws

During the reporting period, the Commission provided recommendations to the Government of Pakistan and CBR to provide tax relief and iron out discrimination among various sectors. Most of these recommendations were accepted by the Government. These included:

- Further extension in one-time capital gain tax exemption on corporatisation of individual stock exchange membership till 30 June 2007. Previously, it was allowed till 30 June 2006.
- Equal treatment for TFCs in terms of withholding tax vis-à-vis government securities and National Saving Schemes.
- Extension in exemption from tax to Venture Capital Companies and Venture Capital Funds till 30 June 2014.
- Equal treatment to loans given by NBFCs as is given to the House Building Finance Corporation or scheduled banks.
- Same tax exemption to REITs as is available to similar investment vehicles in case of income from instruments of redeemable capital.
- Same tax exemption to REITs regarding minimum tax under Section 113 as available to similar investment vehicles.
- Same tax exemption to REITs regarding advance tax under Section 151 and 233 as available to similar investment vehicles.
- Tax credit allowed to the employer of the participant who makes the contribution. This change would allow companies to offer VPS to their employees. Previously, tax credit was not allowed to employers who made contribution on behalf of the participant.

- Deduction of withholding tax in case of death or disability, as admissible on retirement, has been abolished in case of payment out of a VPS.
- Exemption has been allowed to 25 percent of the accumulated balance received by a participant from the VPS offered by the pension fund managers under the VPS Rules at the time of retirement or at the time of disability rendering the individual unable to work or in case of death of the participant to his nominated survivors.
- Transfer of balance from existing schemes of pensions to VPS would no longer be taxed. Such provision gives flexibility to the participants in terms of switching funds according to their objective and considering the efficiency of the Pension Fund Manager.

The Commission maintained a continuous dialogue with CBR on the changes it had recommended in order to further the development of the corporate sector as part of the objective of the Government to boost the national economy.

12.5 Regulatory Acts

12.5.1 Deferment of Transfer Pricing Requirements

The Fourth Schedule to the Companies Ordinance and the listing regulations of the stock exchanges include certain provisions with respect to related party transactions and transfer pricing. In view of varied concerns communicated to the Commission from time to time about availability of relevant information for purposes of measurement and disclosure of related party transactions on arm's length basis and the verification of the same by auditors of companies, the Commission had set up a task force to analyze the concerns of corporate sector and auditors in this regard.

The report of the task force has been received and is under consideration of the Commission. To give full and objective consideration to recommendations of the task force, the Commission deferred the application of clause 6 of Part I of the Fourth Schedule to the Companies Ordinance and listing regulations until 30 September 2006 to listed companies and their subsidiaries.

12.6 Monitoring and Enforcement

12.6.1 Compliance with the Code of Conduct for Credit Rating Companies

In order to ensure that credit rating companies were fully compliant with the Code of Conduct, compliance reports were called from them. Reports received indicated that their operations were fully compliant with the Code.

12.7 Developmental Activities

12.7.1 Review of Companies (Issue of Capital) Rules, 1996

The Companies (Issue of Capital) Rules, 1996 were formulated to provide a legal and policy framework for issue of shares by companies. Keeping in view the changed business environment and the present day needs, PSPD finalised the new rules during the reporting period. The Rules are under consideration of a legal committee before the approval of Commission.

12.7.2 Development of Underwriters (Registration and Regulation) Rules

A review of the Balloters, Transfer Agents and Underwriters Rules, 2001 was carried out by PSPD in order to improve the regulatory framework governing the working of these important intermediaries of the capital market. As a result of this review, it was felt that separate rules needed to be developed for underwriters, transfer agents and balloters in order to ensure effective regulation of these service providers.

As a first step, new rules for underwriters were developed which, interalia, included underwriting by mutual funds. The draft Rules were discussed and referred to the SMD for necessary action.

12.7.3 Standard Operating Procedure for Grant of No-objection to form NBFC

Sub-section (1) of Section 282C of the Companies Ordinance provides that a NBFC cannot be incorporated without prior approval of the Commission, a pre-requisite to undertaking a NBFC business. It was imperative that applications seeking permission to form NBFC were examined in a professional and standardized manner, so that little scrutiny was required for the next stage of granting of license. The Standard Operating Procedure for examination of applications for formation of NBFCs was drafted and sent to the NBFCD for further comments and action.

12.7.4 Guidelines for Calculation of Swap Ratio for Companies Contemplating Mergers

The PD developed guidelines for calculation of swap ratio on merger of companies. Consultation on the guidelines with various Departments was in progress at the end of the reporting period.

12.7.5 Report on Observance of Standards and Codes - Accounting and Auditing

The World Bank and International Monetary Fund had conducted a study on the request of Government of Pakistan for analysing the accounting, auditing and financial regime of public interest corporate entities in Pakistan, in consultation with different stakeholders. They shared their views and international best practices with the Commission, Board of Investment, ICAP, Institute of Cost and Management Accountants of Pakistan and SBP. The recommendations made by the World Bank were discussed in a workshop where stakeholders, including the Commission, shared their views.

12.7.6 Minimum Disclosure Standards for Offering Document for Mutual Funds

It was noted that mutual funds were using different templates in preparing offering documents. Investors would be greatly facilitated if they could compare similar information for purpose of analysis, decision making, and investment.

Standardisation of offering documents was undertaken by PSPD to establish minimum disclosure standards for the offering documents of mutual funds. This would not only help individual investors, but also the reviewing/approving officers in the Commission, as well as set a benchmark for the industry.

Tables

Table 1: Disposal of Complaints, Petitions and Appeals (1 July 2005 – 30 June 2006)

Receipts	Brought Forward	Received	Total	Disposed Off	Outstanding
Complaints	236	2,571	2,807	2,618	189
Appeals	9	100	109	21	88
Ministry references	0	126	126	126	0
Enquiries	0	572	572	572	0

Table 2: Detail of Complaints Handled During The Year Under Review

Nature of Complaints	Brought Forward	Received	Total	Disposed Off	Outstanding
Non-transfer/receipt and issue of duplicate shares	34	1,328	1362	1,336	26
Wrong deduction of Zakat	1	26	27	26	1
Short-payment, non-receipt of dividend	18	685	703	690	13
Non-receipt of annual and half yearly accounts	1	47	48	47	1
Complaints against brokers	144	187	331	201	130
Miscellaneous	38	298	336	318	18
Total	**236**	**2,571**	**2,807**	**2,618**	**189**

Table 3: Number and Type of Companies

Type of Companies	TOTAL	
	2006	2005
Companies limited by shares:		
Public listed	613	612
Public unlisted	2,178	2,145
Private	45,928	41,320
Single member companies	436	242
Total	**49,155**	**44,319**
Companies limited by guarantee under Section 43:	62	56
Associations not-for-profit under Section 42	341	286
Trade organizations	181	176
Foreign companies	653	606
Private companies with unlimited liability*	2	2
Public companies with unlimited liability	3	3
Companies under Section 503 of the Companies Ordinance	4	4
Total Companies	**50,401**	**45,452**

* Only five companies were registered as unlimited liability companies; of these, three were working in the power generation sector while two were classified in miscellaneous sectors.

Table 4: Capitalisation Breakdown

Paid-up Capital (Rs. 000)	Listed Companies	Unlisted Public Companies	Private Companies	Single Member Companies	Total		Percentage Increase in FY 2006
					2006	2005	
Up to 100	1	478	22,832	278	23,589	22,139	6.5
From 100 to 500	1	352	6,959	81	7,393	6,779	9.1
From 500 to 1,000		102	4,077	29	4,208	3,555	18.4
From 1,000 to 10,000	36	335	9,391	30	9,792	8,088	21.1
From 10,000 to 100,000	243	653	2,398	17	3,311	3,022	9.6
From 100,000 to 500,000	234	203	241		678	575	17.9
From 500,000 to 1,000,000	37	25	19	1	82	71	15.5
Over 1,000,000	61	30	11		102	90	13.3
				Total	**49,155**	**44,319**	

Table 5: List of Cases Approved under the Companies Ordinance and Rules and Regulations made thereunder

Relevant Section of the Companies Ordinance or Regulation	Nature of Approval/Permission Sought	No. of Cases Disposed Off	
		Registration Department	Enforcement Department
Section 21	Amendment in memorandum and articles of association	211	0
Section 24(3)	Extension in time for filing the documents on confirmation of alteration	3	0
Section 37	Availability of name	13,907	0
Section 39	Change of name	137	0
Section 42	Grant of license to associations	63	0
Section 44	Conversion of public companies into private companies	10	0
Section 86	Further issue of capital	4	11
Sections 121,129,132	Registration, modification and satisfaction of charge	6,075	0
Section 131	Condonation of delay in submission of particulars of charge	11	0
Section 146	Commencement of business certificate	55	0
Section 156	Extension in period of filing annual return	5	
Sections 158(1), 233	Extension in period for holding of AGMs	62	16
Sections 158(2)	Holding of AGM at any other place than the registered office of the company	0	4
Section 159(7)	Holding of an EOGM at a shorter notice	11	0
Section170	Calling of overdue meetings	15	6
Section 195	Grant of loans to directors	4	8
Section 233	Preparation of first accounts exceeding twelve months	9	0
Section 237	Exemption for consolidation of accounts	5	12
Section 245	Approval of placing of quarterly accounts on website of companies	0	47

Relevant Section of the Companies Ordinance or Regulation	Nature of Approval/Permission Sought	No. of Cases Disposed Off	
		Registration Department	Enforcement Department
Section 251(2)	Withholding or defer payment of dividend	0	2
Section 252	Appointment of auditors	1	0
Section 258	Approval of appointment of cost auditor	65	58
Section 439(9)	Restoration of name of company to the register of companies	4	0
Section 466(6)	Issue of certified copies of documents	31,181	0
Rule 5, 6,8 read with Rule 10 of the Companies (Issue of Capital) Rules,1996	Grant of relaxation from issuance of shares for consideration other than cash	1	9
Rule 5 of the Companies Share Capital (Variation in Rights and Privileges) Rules, 2000	Issuance of different classes and kinds of capital	2	0
Section 90 read with Companies Share Capital (Variation in Rights and Privileges) Rules, 2000	Issuance of more different kind of share capital having different rights and privileges	3	5
Regulation 18 of the Companies (Registration Offices) Regulations, 2003.	Inspection of records maintained with CROs	8,982	0
	Miscellaneous (minor activities, providing information to different agencies and shareholders, etc.)	37,400	0
Clause (xlvii) of the Code of Corporate Governance	Relaxation of condition regarding statement of ethics - circulation of a "Statement of Ethics and Business Practices".	0	1
	Total	**98,226**	**168**

TABLES

Figure 6: KSE Performance at a Glance

	30 June 2005	30 June 2006	% Change	High FY 2006	Low FY 2006
KSE-100 Index	7,450.12	9,989.41	+34%	12,273.77 (17 April 2006)	8,768.95 (14 June 2006)
Market Capitalisation (Rs. in billion)	2,068.19	2,801.18	+35%	3,459.95 (17 April 2006)	2,480.98 (14 June 2006)
Turnover (Shares in million)	343 (Daily average for the year)	321.1 (Daily average for the year)		737.38 (14 February 2006)	61.45 (12 June 2006)

Table 7: IPOs and Offer for Sale in 2005-2006

S. No.	Name of Company	Sector	Total Capital Raised Rs. in million	Pre-IPO Rs. in million	IPO Rs. in million	Premium per share Rs.	% over/(under) subscribed
1	*Chenab Limited	Textiles	1,150.000	1,000.000	300.000	8.00	(66.64%)
2	NetSol Technologies Limited	Technology and Communication	355.000	255.000	100.000	15.00	12.19%
3	Worldcall Telecom Limited	Technology and Communication	3,440.000	2,750.000	690.000	0.00	(97.37%)
4	D.S Industries Limited	Textiles	300.000	200.000	100.000	0.00	2.59%
5	The Bank of Khyber	Commercial Banks	1,642.034	1,231.034	411.000	5.00	647.82%
6	Bank Islami Pakistan Limited	Commercial Banks	2,000.000	1,600.000	400.000	0.00	764.74%
7	Siddiqsons Tin Plates Ltd. *(Offer for Sale)*	Miscellaneous	713.819	713.819	142.770	25.00	101.72%
	Total		**9,600.853**	**7,749.853**	**2,143.77**		

* Chenab Limited has offered Rs. 300 million to the general public, out of which, Rs. 150 million was by way of IPO and the remaining Rs. 150 million was through offer for sale of shares. The company received Rs. 180.162 million against public offer of Rs. 540 million (including premium of Rs. 240 million.)

TABLES

Table 8: Enforcement Actions by Market Surveillance Wing

No.	Order Date	Company	Description
1	25 August 2005	Worldwide Securities (Pvt.) Limited	A fine of Rs. 50,000 was imposed for violation of Clause 8(iv) of the Brokers and Agents Registration Rules, 2001.
2	12 September 2005	Sherman Securities (Pvt.) Limited	A fine of Rs. 25,000 was imposed for violation of Clause 8(iv) of the Brokers and Agents Registration Rules, 2001.
3	12 September 2005	First Equity Modaraba	The management was warned with regard to the compliance of law and directed to keep away from transactions which interfere with fairness of the market.
4	12 September 2005	Taurus Securities Limited	The management was warned with regard to compliance of law and directed to keep away from transactions which interfere with the fairness of the market.
5	19 October 2005	D. J. M. Securities (Pvt.) Limited	The management was warned to be more cautious and vigilant in future with regard to compliance of position limits in futures market.
6	24 October 2005	Motiwala Securities (Pvt.) Limited	A fine of Rs. 50,000 was imposed for violation of Clause 8(iv) of the Brokers and Agents Registration Rules, 2001.
7	2 November 2005	Capital One Equities (Pvt.) Limited	A fine of Rs. 50,000 was imposed for violation of Clause 8(iv) of the Brokers and Agents Registration Rules, 2001.
8	16 December 2005	Aqeel Karim Dhedhi Securities (Pvt.) Limited	A fine of Rs. 50,000 was imposed for violation of Clause 8(iv) of the Brokers and Agents Registration Rules, 2001.
9	16 March 2006	Ismail Abdul Shakoor	A fine of Rs. 50,000 was imposed for violation of various clauses of the Regulations for Short Selling Under Ready Market, 2002 and the Brokers and Agents Registration Rules, 2001.
10	16 March 2006	Bawa Securities (Pvt.) Limited	A fine of Rs.25,000 was imposed for violation of different clauses of the Regulations for Short Selling Under Ready Market, 2002 and the Brokers and Agents Registration Rules, 2001.

Table 9: Comparative Analysis of Complaints Received and Disposed off at each Stock Exchange during 2005-06

	KSE	LSE	ISE	TOTAL
No. of complaints brought forward	82	51	11	144
New complaints/claims received	78	50	59	187
Total complaints dealt with by ICW	**160**	**101**	**70**	**331**
Break-up of total complaints dealt with by ICW				
Complaints/claims with the stock exchanges against defaulted members as on 1 July 2006	0	0	39	39
Complaints disposed off	111	66	24	201
Complaints under examination with the ICW and under process at Stock Exchanges as on 1 July 2006	49	35	7	91
	160	**101**	**70**	**331**

Table 10: Key Statistics of Closed-end Mutual Funds as at 30 June 2006

S.No.	Names of Funds	Issued Capital	Total Net Assets	NAV Per Certificate	Market Value	Dividend Payout
		Rs. in million	Rs. in million	(Rs.)	(Rs.)	
1	AKD Index Tracker Fund	750.00	807.90	10.77	9.40	4.5%
2	Al-Meezan Mutual Fund Limited	1,196.00	2,028.97	16.96	14.90	30.0%
3	Asian Stocks Fund Limited	900.00	543.27	6.04	8.00	NIL
4	Atlas Fund of Funds	525.00	628.66	11.97	9.75	15.0%
5	BSJS Balanced Fund	1,185.75	1,789.33	15.09	12.15	30.0%
6	First Capital Mutual Fund Limited	150.00	176.04	11.74	7.00	10.0%
7	First Dawood Mutual Fund	505.00	618.10	12.24	9.30	15%B
8	Golden Arrow Selected Stocks Fund Limited	614.54	965.95	7.86	7.20	30.0%
9	Meezan Balanced Fund	1,200.00	1,513.20	12.61	10.05	20.0%
10	Pakistan Premier Fund Limited	1,476.56	2,576.51	17.45	14.25	40.0%
11	Pakistan Strategic Allocation Fund	3,000.00	3,989.33	13.30	10.65	25.0%
12	PICIC Energy Fund	1,000.00	1,019.12	10.19	8.20	NIL
13	PICIC Growth Fund	2,835.00	11,898.95	41.97	31.60	70%, 20%B
14	PICIC Investment Fund	2,841.25	5,490.47	19.32	14.60	50.0%
15	Safeway Mutual Fund Limited	544.50	659.58	12.11	13.50	NIL
16	UTP - Large Capital Fund	3,295.50	3,402.94	10.33	8.50	35.0%
17	UTP Growth Fund	3,180.05	5,540.27	17.42	13.00	35.0%
	Total	25,199.15	43,648.59			

B: Bonus Shares

Note: 1- The par value of each certificate/share is Rs. 10, except Golden Arrow Selected Stocks Fund Limited which is Rs. 5

2- Dominion Stock Market Fund, Investec Mutual Fund, Prudential Stock Fund Limited, Tri-Star Mutual Fund Limited not included in this Table as the same are under litigation

TABLES

Table 11: Key Statistics of Open-end Mutual Funds

S. No.	Name of Fund	No. of Units in Issue		Net Assets	Par Value	NAV Per Unit	Market Value (Rs.)		Dividend Payout (%)
		30 June 2005	30 June 2006	30 JUNE 2006	Rs.	Rs.	Offer Price	Re-Purchase Price	2006
Public Sector									
1	National Investment (Unit) Trust	1,600,240,000	1,492,871,000	64,295.93	10.00	43.07	50.10	48.35	58.0%
Private Sector									
2	AKD Opportunity Fund	-	25,462,550	1,128.87	50.00	44.30	45.10	45.70	NIL
3	Al- Falah GHP Value Fund*	-	9,169,304	507.41	50.00	55.34	56.72	55.34	NIL
4	AMZ Plus Income Fund	-	15,629,255	1,634.70	100.00	104.60	105.83	104.53	4.14%B
5	Askari Income Fund	-	11,084,619	1,163.68	100.00	104.98	106.40	104.98	4.49%B
6	Atlas Income Fund	2,101,528	4,796,790	2,675.60	500.00	557.79	566.65	555.54	11.5%B
7	Atlas Stock Market Fund	1,632,318	2,315,580	1,534.74	500.00	662.79	667.92	654.82	25% B
8	Crosby Dragon Fund	3,784,766	3,667,760	424.11	100.00	115.63	112.70	110.45	15%B
9	Dawood Money Market Fund	16,733,410	15,608,455	1,744.77	100.00	111.78	112.55	111.43	11.5%B
10	Faysal Balanced Growth Fund	15,600,587	15,259,604	1,621.47	100.00	106.26	108.65	106.26	26%B
11	Faysal Income and Growth Fund	-	14,214,836	1,500.94	100.00	105.59	106.65	105.59	5.5%B
12	KASB Liquid Fund	-	7,197,970	730.69	100.00	101.51	101.40	100.89	1.4%B
13	Meezan Islamic Fund	26,321,197	42,034,940	3,199.55	50.00	76.12	77.87	76.12	35%B
14	MetroBank Pakistan Sovereign Fund-Consolidated	18,449,500	20,480,100	1,013.66	50.00	49.49	48.03	47.98	3.88%B
15	NAFA Cash Fund	-	380,152,449	3,874.37	10.00	10.19	10.19	10.19	1.9%B
16	Pakistan Capital Market Fund	149,851,767	98,832,091	1,435.65	10.00	14.53	14.90	14.53	30%B
17	Pakistan Income Fund	67,575,442	103,186,789	5,686.59	50.00	55.11	55.83	55.11	10%B
18	Pakistan International Element Islamic Fund	-	28,877,192	1,378.17	50.00	47.73	48.74	47.73	NIL
19	Pakistan Stock Market Fund	23,570,382	31,654,241	3,617.73	50.00	114.29	117.22	114.29	60%B
20	Unit Trust of Pakistan	428,556	377,657	3,516.60	5,000.00	9,312.00	9,594.04	9,314.60	40% B
21	United Growth and Income Fund	25,000,000	12,085,318	1,321.62	100.00	109.35	109.53	108.44	9.25%B
22	United Money Market Fund	28,969,813	33,760,412	3,714.67	100.00	110.03	110.22	109.12	10% B
23	UTP- A30+ Fund	-	3,787,874	190.38	50.00	50.26	51.09	50.08	0.50%B
24	UTP Aggressive Asset Allocation Fund	2,595,267	41,259,298	3,591.72	50.00	87.05	89.68	87.05	65%B
25	UTP Fund of Funds	-	3,541,286	192.37	50.00	54.32	55.12	54.03	8%B
26	UTP Income Fund	2,455,380	6,213,173	3,529.70	500.00	568.10	579.22	567.85	12.10%B
27	UTP Islamic Fund	1,499,682	1,104,791	863.98	500.00	782.03	805.18	781.72	37.5%B
	Total			**116,089.67**					

Table 12: New Licenses Issued by NBFC During the Year

Name of Company	Nature of Business
Escorts Investment Bank Limited	Leasing
Pakistan Industrial and Commercial Leasing	Leasing
Al-Meezan Investment Management Limited	Investment Banking
ABAMCO Limited	Investment Banking
Escorts Investment Bank Limited	Housing Finance
Saudi Pak Leasing Company Limited	Housing Finance
AKD Investment Management Limited	Asset Management Services License
Alliance Investment Management Limited	Investment Advisory License
AMZ Asset Management Limited	Asset Management Services License
Askari Investment Management Limited	Investment Advisory License/ Asset Management Services License
BMA Capital Management Limited	Asset Management Services License
First International Capital Management Limited	Investment Advisory License/ Asset Management Services License
HBL Asset Management Limited	Investment Advisory License/ Asset Management Services License
HABIB Asset Management Limited	Asset Management Services License
KASB Funds Limited	Asset Management Services License
MCB Asset Management Company Limited	Asset Management Services License
National Asset Management Limited	Investment Advisory License/ Asset Management Services License
National Fullerton Asset Management Limited	Asset Management Services License
Noman Abid Investment Management Limited	Investment Advisory License/ Asset Management Services License
NBP Capital Limited	Asset Management Services License
PICIC Asset Management Company Limited	Asset Management Services License
WE Investment Management Limited	Investment Advisory License

Table 13: Renewal of Licenses of NBFCs

Name of Company	Nature of Business
SME Leasing Limited	Leasing
Network Leasing Corporation Limited	Leasing
Pak-Gulf Leasing Company Ltd.	Leasing
Grays Leasing Limited	Leasing
Saudi Pak Leasing Company Limited	Leasing
Orix Leasing Pakistan Limited	Leasing
Union Leasing Limited	Leasing
NBP Capital	Leasing, Discount Services
Trust Leasing and Investment Bank Limited	Leasing, Investment Finance Services
Crescent Leasing Corporation Limited	Leasing, Investment Finance Services
First Dawood Investment Bank Limited	Leasing, Investment finance Services, Housing Finance Services
First International Investment Bank Limited	Leasing, Investment Finance Services
Security Leasing Corporation Limited	Leasing, Housing finance Services
Crescent Standard Investment Bank Limited	Leasing, Investment Finance Services
Security Investment Bank Limited	Investment Finance Services
Escorts Investment Bank Limited	Investment Finance Services
Jahangir Siddiqui Investment Bank Limited	Investment Finance Services
First Credit and Investment Bank Limited	Investment Finance Services
AKD Investment Management Limited	Investment Advisory
AMZ Asset Management Limited	Investment Advisory
Intersecurities Management Limited	Investment Advisory
KASB Funds Limited	Investment Advisory
PICIC Asset Management Company Limited	Investment Advisory
Safeway Management Limited	Investment Advisory
First Capital Investment Limited	Investment Advisory
ABAMCO Limited	Investment Advisory/Asset Management Services
Al Meezan Investment Management Limited	Investment Advisory/Asset Management Services
Arif Habib Investment Management Limited	Investment Advisory/Asset Management Services
Atlas Asset Management Limited	Investment Advisory/Asset Management Services
Al Falah GHP Investment Management	Investment Advisory/ Asset Management Services
BMA Asset Management Limited	Investment Advisory/ Asset Management Services
Crosby Asset Management (Pakistan) Limited	Investment Advisory/Asset Management Services
Dawood Capital Management Limited	Investment Advisory/Asset Management Services
Faysal Asset Management Limited	Investment Advisory/Asset Management Services
UBL Fund Managers Limited	Investment Advisory/Asset Management Services
National Investment Trust Limited	Asset Management Services
Asian Housing Finance Limited	Housing Finance Services
International Housing Finance Limited	Housing Finance Services
AMZ Ventures Limited	Venture Capital
TMT Venture Limited	Venture Capital
TRG Pakistan Limited	Venture Capital

Table 14: Licences of NBFCs Not Renewed

Pakistan Industrial & Commercial Leasing	Leasing licence granted in 2006 was not renewed in 2007 due to non fulfillment of conditions of licence and minimum equity requirements
Crescent Leasing Corporation Limited	IFS licence granted in 2005 was not renewed in 2006 due to the Commissions decision that similar group companies can not have similar licences
JS Abamco Limited	JS ABAMCO vide letter dated June 20, 2006 withdrawn the licences for undertaking the business Leasing, Venture Capital and Housing Finance
JP Mongan Pakistan Limited	JP Mongan Pakistan Limited's Investment Advisory license had expired on 4 January 2006 which was not renewed in subsequent year as the company informed that they no longer intend to undertake investment advisory activity in Pakistan. Their file was closed w.e.f 15 May 2006
International Asset Management	International Asset Management Company Limited's Investment Advisory license had expired on 11 August 2004 which was not renewed as the company failed to meet minimum equity requirement at the time of renewal of license in the subsequent year. Moreover Commission in its 30th meeting of 2005 has decided that only one license will be issued in a Group to undertake any of the activities given in the NBFC Rules. The license was also not renewed for the reason that two of its two other group companies(Asian and Safeway) were having IA license

Table 15: Authorisations issued by Registrar (Modarabas)

	Name of Modaraba	Name of Modaraba Management Company
1.	First Treet Manufacturing Modaraba	Global Econo Trade (Pvt.) Limited
2.	Total Modaraba	Total Hospitality Management (Pvt.) Limited
3.	Allied Rental Modaraba	Allied Engineering Management Company
4.	Modaraba Al-Souk	JS Finance Limited
5.	Modaraba Al-Makatib	JS Finance Limited
6.	Modaraba Al-Tameer	JS Finance Limited

Table 16: Show Cause Notices Issued to NBFCs

Show cause notices to the auditors, CEO and CFO of Crescent Standard Investment Bank Limited for failure to bring out material facts about the affairs of the company in their audit report; for not keeping proper books of accounts of the company, investment in real estate, etc.; and for not keeping proper books of accounts of the company, investment in real estate, etc.
Show cause notice to Lease Pak Limited for failure to carry out business in accordance with the requirements of the law.
Show cause notice to Orix Investment Bank Limited for making investment in equities in excess of its liquid net worth.
Show cause notice to National Asset Leasing for violation of certain requirements of the regulations.
Show cause notice to the auditors of Islamic Investment Bank Limited for failure to attend to their duties.
Show cause notice to Natover Lease for violation of investment limits for leasing business.
Show cause notice to Investec Mutual Fund and its directors since the fund was being managed by an unlicensed Investment Adviser since 31 December 2003 and certain other violations.
Show cause notices to Arif Habib Investment Management Limited and its directors as quarterly accounts of the company for period ended 31 December 2004 had revealed a negative net capital balance contrary to provisions of clause (a) of Rule 33 of the NBFC Rules and violation of investment limits.
Show cause notice to Prudential Stocks Fund Limited for failure to raise its capital to Rs. 100 million and inability to fulfil other regulatory requirements.
Show cause notice to Tri- Star Mutual Fund Limited through its CEO since the Fund was being managed by an unlicensed Investment Adviser since 31 December 2003 and inability to meet other regulatory requirements.
Show cause notice to Asian Stocks Fund Limited and its directors for investment of an amount exceeding 10 percent of the paid up capital of the investee companies in contravention of Rule 49 (3) of the NBFC Rules; and for violation of investment limits as defined in Rule 49 (3) and 49 (4) of the NBFC Rules.
Show cause notice to ABAMCO Limited and its directors since transactions made by ABAMCO Limited and its officers in respect of its funds were considered contrary to the interest of the certificate/unit holders and in violation of its obligations stipulated in certain rules.
Show cause notice to TRG Pakistan Limited and its directors for non-holding of AGM for the year ended 30 June 2005.
Show cause notice to Safeway Mutual Fund Limited and its directors for violation of investment limits as defined in Rule 49 (3) and 49 (4) of the NBFC Rules.
Show cause notice to Safeway Fund Limited as Crescent Standard Business Management had transferred 100 percent of its shareholding in Safeway Fund without approval of the Commission, in contravention of Rule 72(c) of the NBFC Rules.
Show cause notice to Asian Capital Management Limited as Crescent Standard Business Management had transferred 100 percent of its shareholding in Asian Capital Management Limited without approval of the Commission in contravention of Rule 72 (c) of the NBFC Rules.

Table 17: Details of Life and Non-Life Insurance (Rs. in million)

	Premium			Claims			Assets			Liabilities		
	2004	2005	% Increase	2004	2005	% Increase	2004	2005	% Increase	2004	2005	% Increase
Life	14,583	18,552	27.22	8,180	9,114	11.42	123,900	142,238	14.87	122,011	140,204	14.91
Non-life	22,079	27,615	25.07	11,089	12,004	8.25	43,468	54,133	24.54	25,670	30,421	18.51
Total	36,662	46,167	25.93	19,269	21,118	9.6	167,368	196,461	17.38	147,681	170,625	15.54

Table 18: Major Cases Handled by Legal Department

Title of Case	Description
C.P. No. 1388 of 2006: Siddiq Moti vs SECP and others	Civil Petition for leave to appeal under Article 185(3) of the Constitution of the Islamic Republic of Pakistan, 1973 (the Constitution) against the order of the Lahore High Court, Rawalpindi Bench, Rawalpindi in Commercial Appeal No. 3/2001.
W.P. No. 188 of 2006: Muhammad Khalid vs SECP and others	Writ Petition under Article 199 of the Constitution before the Lahore High Court, Lahore against the Commission's letter dated 25 January 2006 in which it advised the petitioner to direct his complaint to the LSE (being the relevant forum).
Suit No. 49/1/1999: Zafar Moti vs LSE and others	Suit for declaration with consequential relief under Rules 1 and 2 of Order 39, read with Section 151 of the Civil Procedure Code, before the Civil Court Lahore, regarding the impugned order dated 24 June 1997 passed by the then Corporate Law Authority.
Appeal No. 946 of 2005: SECP vs First Capital Securities Corporation Limited and others	Appeal from the judgment and decree of the Lahore High Court, Lahore before the Supreme Court of Pakistan regarding the interpretation of Section 224 of the Companies Ordinance.
Commercial Appeal No. 9/2004: Lahore Stock Exchange vs SECP and Pakistan National Shipping Corporation	Appeal under Section 34 of the SECP Act, against the Commission's decision to de-list the Pakistan National Shipping Corporation from LSE and ISE, before the Lahore High Court, Lahore. The Court set aside the decision of the Commission. The Commission is to file an appeal before the Supreme Court of Pakistan.
Intra-Court Appeal No. 7 of 2005: SECP vs Prudential Investment Bank Limited	The Commission filed a petition for the winding up of Prudential Investment Bank Limited (PIBL) before the Lahore High Court, Rawalpindi Bench, Rawalpindi. PIBL filed a revival plan which was accepted by the Court and the winding up petition was dismissed. The Commission has filed an intra-court appeal against the dismissal of the winding up petition before the Division Bench.
Civil Suit No. 480 of 2006: Taher Moochala & Co. vs SECP and others	The suit has been filed before the Sindh High Court, Karachi against the list of approved auditors for performing the audit of modaraba and insurance companies.
Writ Petition No. 1842 of 2005: Ashraf Sugar Mills Limited vs SECP and others	A writ petition was filed before the Lahore High Court, Rawalpindi Bench, Rawalpindi against a show cause notice issued by the Commission. On 26 April 2006, the Court decided in favour of the Commission. It held that the Court was an appellate forum against an order of the Appellate Bench of the Commission and therefore, the petitioner should have first filed an appeal before the Appellate Bench.

Table 19: Professionals Inducted During FY 2005-2006

Designation	30 June 2005	Induction	Outgoing Employees	30 June 2006
Commissioner	5	1	3	3
Adviser	2	0	0	2
Executive Director	3	2	2	3
Director	16	3	1	18
Joint Director	17	9	8	18
Deputy Director	35	7	5	37
Assistant Director	43	10	10	43
Junior Executive	26	9	0	35
Total	**148**	**54**	**43**	**159**

Abbreviations and Acronyms

Abbreviations and Acronyms

ADB	Asian Development Bank
AGM	Annual General Meeting
ALICO	American Life Insurance Company
AML	Anti-money Laundering
APCRF	Asia Pacific Corporate Registers Forum
APG	Asia/Pacific Group on Money Laundering
CA	Chartered Accountant
CBR	Central Board of Revenue
CDC	Central Depository Company of Pakistan Limited
CDS	Central Depository System
CEO	Chief Executive Officer
CFS	Continuous Funding System
CFT	Countering the Financing of Terrorism
CGAML	Consultative Group on Anti-money Laundering
CIS	Collective Investment Scheme
CIW	Capital Issues Wing
CLA	Corporate Law Authority
CLD	Company Law Division
CMA	Cost and Management Accountant
COD	Certificate of Deposit
COI	Certificate of Investment
Companies Ordinance	Companies Ordinance, 1984
COT	Carry-over Trading
CRO	Company Registration Office
CS	Chairman's Secretariat
DFI	Development Finance Institution
EGD	Electronic Government Directorate
FIU	Fraud Investigation Unit
EMC	Emerging Markets Committee

FMGP	Financial (non-bank) Markets and Governance Program
FRU	Foreign Relations Unit
FY	Financial Year
IAIS	International Association of Insurance Supervisors
IAP	Insurance Association of Pakistan
IAS	International Accounting Standard
ICAP	Institute of Chartered Accountants of Pakistan
ICMAP	Institute of Cost and Management Accountants of Pakistan
ICW	Investor Complaint Wing
ID	Insurance Department
IDF	Institutional Development Fund
IMF	International Monetary Fund
Insurance Ordinance	Insurance Ordinance, 2000
IOPS	International Organization of Pension Supervisors
IOSCO	International Organization of Securities Commissions
IPO	Initial Public Offering
IS&T	Information Systems and Technology
ISE	Islamabad Stock Exchange
IT	Information Technology
JEIS	Junior Executive Induction Scheme
KSE	Karachi Stock Exchange
KSE-100 Index	Karachi Stock Exchange 100 Shares Index
LD	Legal Department
LSE	Lahore Stock Exchange
METRO	Metropolitan Life Assurance Company of Pakistan Limited
MIS	Management Information System
MMC	Modaraba Management Company
Modaraba Ordinance	Modaraba Companies and Modaraba (Floatation and Control Ordinance), 1980
Modaraba Rules	Modaraba Companies and Modaraba Rules, 1981
MoU	Memorandum of Understanding
MSW	Monitoring and Surveillance Wing

NAB	National Accountability Bureau
NAV	Net Asset Value
NBFC	Non-banking Finance Company
NBFCD	Non-banking Finance Companies Department
NBFC Rules	Non-banking Finance Companies (Establishment and Regulation) Rules, 2003
NBFI	Non-bank Financial Institution
NCCPL	National Clearing Company of Pakistan Limited
NCEL	National Commodity Exchange Limited
NIT	National Investment Trust
OTC	Over-the-counter
Policy Board	Securities and Exchange Policy Board
PRCL	Pakistan Reinsurance Company Limited
PSPD	Professional Services and Policy Division
REIT	Real Estate Investment Trust
ROSC	Reports on the Observance of Standards and Codes
SAARC	South Asian Association for Regional Cooperation
SASRF	South Asian Securities Regulators Forum
SBP	State Bank of Pakistan
SCD	Specialized Companies Division
SECP Act	Securities and Exchange Commission of Pakistan Act, 1997
SMC	Single Member Company
SMD	Securities Market Division
SME	Small and Medium Enterprise
SMEDA	Small and Medium Enterprises Development Authority
SOE	State-owned Enterprise
SPV	Special Purpose Vehicle
SRO	Self-regulatory Organization
SSD	Support Services Division
TA	Technical Assistance
Takeover Ordinance	Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Ordinance, 2002

TFC	Term Finance Certificate
The Commission	The Securities and Exchange Commission of Pakistan
UK	United Kingdom
VaR	Value at Risk
VPS	Voluntary Pension System
VPS Rules	Voluntary Pension System Rules, 2005
WG3	Working Group-3

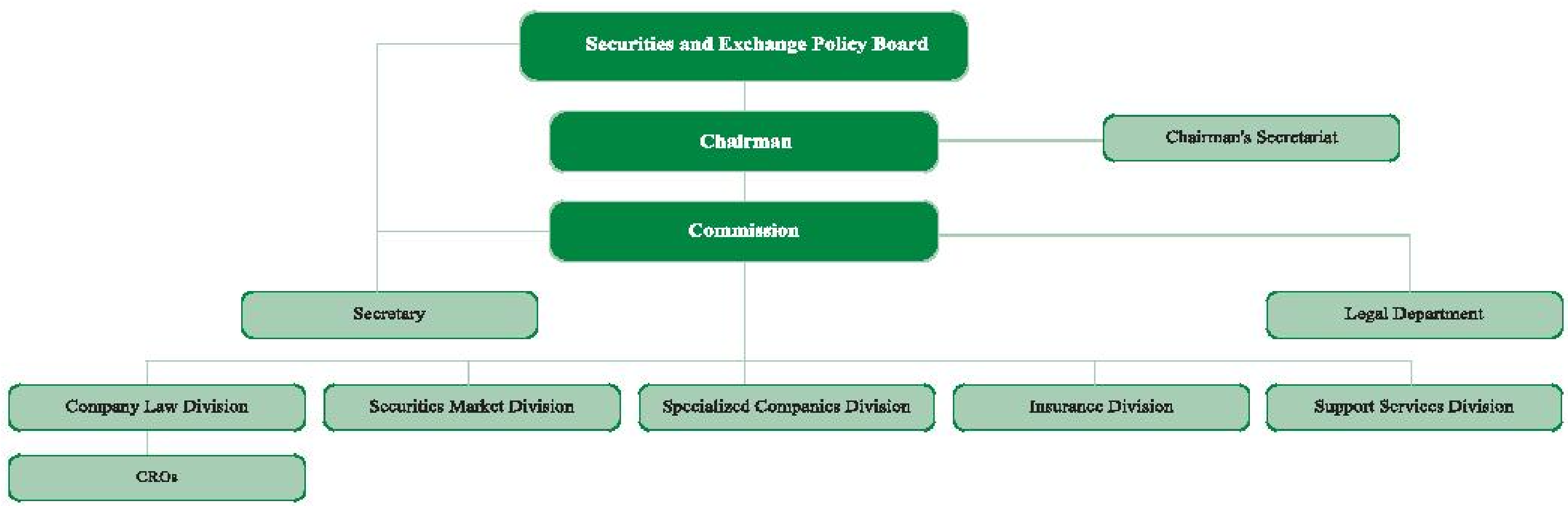
SECP
Securities and Exchange Commission of Pakistan
NIC Building, Jinnah Avenue, Islamabad-44000, Pakistan
Tel: +92-51-9207091-4, Fax: +92-51-9204915
E-mail: headquarters@secp.gov.pk
Web: www.secp.gov.pk

ANNUAL REPORT 2006

Annexures

ANNEXURE A

ORGANIZATIONAL STRUCTURE



Annexure B

Management Directory

Headquarter Office Islamabad
PABX: +92-051-9207091-94

Name	Designation	Email Address	Telephone Number
Razi-ur-Rahman Khan	Chairman	chairman@secp.gov.pk	+92-51-9204841
Salman Ali Shaikh	Commissioner (SCD)	salman.shaikh@secp.gov.pk	+92-51-9206513
Rashid I. Malik	Commissioner (CLD and SMD)	rashid.malik@secp.gov.pk	+92-51-9222771
Abdul Rehman Qureshi	Advisor to Commission	rehman.qureshi@secp.gov.pk	+92-51-9202692
Dr. Mumtaz Ahmed Hashmi	Advisor (Insurance)	mumtaz.hasmi@secp.gov.pk	+92-51-9209985
Javed Siddiqui	Executive Director (SSD)	javed.siddiqui@secp.gov.pk	+92-51-9206003
Mansur Ahsan	Executive Director (HR)	mansur.ahsan@secp.gov.pk	+92-51-9206014
Nazir A. Shaheen	Registrar of Companies	nazir.shaheen@secp.gov.pk	+92-51-9206306
Akif Saeed	Executive Director (SCD)	akif.saeed@secp.gov.pk	+92-51-9212084
Arshad Javed Minhas	Executive Director (IS&T)	arshad.minhas@secp.gov.pk	+92-51-9212103
Tahir Mahmood	Executive Director (Enforcement)	tahir.mahmood@secp.gov.pk	+92-51-9207598
Zafar Abdullah	Executive Director (SMD)	abdullah.zafar@secp.gov.pk	+92-21-9217596
Fayyaz Mahmud	Director (Chairman's Secretariat)	fayyaz.mahmud@secp.gov.pk	+92-51-9207648
Akbar Shah	Additional Registrar	akbar.shah@secp.gov.pk	+92-51-9230208
Muhammad Siddique	Additional Registrar (Registration Department)	muhammad.siddique@secp.gov.pk	+92-51-9230207
Muhammad Naveed Chaudhry	Director (CLD)	muhammad.naveed@secp.gov.pk	+92-51-9230099
Ali Azeem Ikram	Director (Enforcement)	ali.azeem@secp.gov.pk	+92-51-9205588
Tariq Bakhtawar	Director (Enforcement and FIU)	tariq.bakhtawar@secp.gov.pk	+92-51-9209707
Hizbullah Siddiqui	Director (Complaints Wing/Brokers, Registration and Inspection)	hizbullah.siddiqui@secp.gov.pk	+92-51-9206317
Imran Inayat Butt	Director (MSW)	imran.butt@secp.gov.pk	+92-51-9225224
Rashid S. Paracha	Director (Commodity Exchange)	rashid.piracha@secp.gov.pk	+92-51-9225224
Umer Hayat Khan	Director (NBFC-I)	omar.hayat@secp.gov.pk	+92-51-9210211
Asif Jalal Bhatti	Director (Monitoring and Inspection – NBFC)	asif.jalal@secp.gov.pk	+92-51-9218597
Muhammad Afzal	Director (NBFC-II)	muhammad.afzal@secp.gov.pk	+92-51-9212050
Bilal Rasul	Registrar Modaraba	bilal.rasul@secp.gov.pk	+92-51-9212070
Waseem Irshad	Director (Administration)	waseem.irshad@secp.gov.pk	+92-51-9205713
Chaudhry Imtiaz Hussain	Director	imtiaz.hussain@secp.gov.pk	+92-51-9210309
Bushra Aslam	Director	bushra.aslam@secp.gov.pk	+92-51-9221513
Abid Hussain	Director (Enforcement)	abid.hussain@secp.gov.pk	+92-51-9205921
Hasnat Ahmad	Director (Pension)	hasnat.ahmad@secp.gov.pk	+92-51-9206011
Ashraf Tiwana	Registrar (Appelate Bench)	ashraf.tiwana@secp.gov.pk	+92-51-9206514

Regional Offices/Company Registration Offices

Name	Designation	Email Address	Telephone Number
Dr. Mumtaz A. Hashmi	Advisor (Insurance) Karachi	mumtaz.hashmi@secp.gov.pk	+92-021-9213273 +92-051-9209985
Zafar Abdullah	Executive Director (SMD) Karachi	abdullah.zafar@secp.gov.pk	+92-021-9217596
Imran Iqbal Panjwani	Director (SMD) Karachi	imran.iqbal@secp.gov.pk	+92-021-9217598
Javed Hussain	Additional Registrar Karachi	javed.hussain@secp.gov.pk	+92-021-9213272
Ahmad Muzammil	Additional Registrar Lahore	amuzammil@secp.gov.pk	+92-042-9200274
Muhammad Musharraf Khan	Additional Registrar Islamabad	musharraf.khan@secp.gov.pk	+92-051-9208740
Zahoor Ahmed	Joint Registrar Faisalabad	zahur.ahmad@secp.gov.pk	+92-041-9220284
Mudassar Rahim	Joint Registrar Peshawar	mudassar.rahim@secp.gov.pk	+92-091-9213178
Liaqat Ali Dola	Joint Registrar Multan	liaqat.dola@secp..gov.pk	+92-061-9200920
Kashif Mehmood	Assistant Registrar Quetta	kashif.mahmood@secp.gov.pk	+92-081-2844136
Iftikhar Naqvi	Assistant Registrar Sukkur	iftikhar.hasan@secp.gov.pk	+92-071-5633757

Annexure C

List of Publications
Available on SECP Website: www.secp.gov.pk

Investor Guide Volume 1

Investor Guide Volume 2

Investors Guide to Lodging Complaints

Frequently Asked Questions on Corporate Governance

Insurance Guide

Promoters Guide (English)

Promoters Guide (Urdu)

Promoters Guide (Chinese)

Promoters Guide (Arabic)

Manual on Corporate Governance

Directors and Secretaries Guide

Guide on Accounts and Accounting Reference Dates

Single Member Companies Guide

Company Mortgages and Charges Guide

Guide on Investigation into the Affairs of a Company

Conversion of Status of Companies Guide

Winding up of Companies Guide

Directors and Secretaries Guide

Shareholder's Rights Guide

Foreign Companies Guide