

Contents

| | |
|--|-----|
| 1. Vision, Mission, Strategy Statement ----- | 1 |
| 2. Chairman's Review ----- | 2 |
| 3. The Commission ----- | 8 |
| 4. Financial Statements ----- | 16 |
| 5. Chairman's Secretariat ----- | 34 |
| 6. Company Law Division ----- | 42 |
| 7. Securities Market Division ----- | 64 |
| 8. Specialised Companies Division ----- | 88 |
| 9. Insurance Division ----- | 104 |
| 10. Legal Department ----- | 110 |
| 11. Support Services Division ----- | 114 |
| Statistical Section ----- | 128 |
| Annexures ----- | 152 |
| Abbreviations and Acronyms ----- | 160 |

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.

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

Mission

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.

Chapter 3

The Commission

| | |
|--|----|
| Organisational Structure | 11 |
| Management Team | 11 |
| Securities and Exchange Policy Board | 12 |

Chairman Mr. Razi-ur-Rahman Khan (second from left) with Commissioners
Mr. Salman Ali Shaikh (second from right), Mr. Rashid I. Malik (extreme left) and Mr. S. Tariq Asaf Husain (extreme right)



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



(From front left): Mr. Mansur Ahsan (Executive Director, HR&TRG), Mr. Rashid I. Malik (Commissioner, SMD&CLD), Mr. Razi-ur-Rahman Khan (Chairman, SECP), Mr. Salman A. Shaikh (Commissioner, SCD), Mr. Tariq Asaf Husain (Commissioner Law), Mr. Abdul Rehman Qureshi (Advisor to the Commission) and Dr. Mumtaz A. Hashmi (Advisor Insurance). (From back left) Mr. Akif Saeed (Executive Director, SCD), S. Gulrez Yazdani (Executive Director CS), Mr. Nazir Ahmad Shahen (Executive Director, RD), Mr. Arshad Javed Minhas (Executive Director, IS&T), Mr. Javed K. Siddiqui (Executive Director, SSD), Mr. Tahir Mahmood (Executive Director, EMD)

The Commission

3.1 Organisational Structure

Securities and Exchange Commission of Pakistan (the Commission) was established pursuant to the Securities and Exchange Commission of Pakistan Act, 1997 (SECP Act) for the beneficial regulation of the capital markets, superintendence and control of the corporate entities in Pakistan and for matters connected therewith. The regulation of the Non-banking Finance Company (NBFC) sector, the insurance sector and the Voluntary Pension Schemes (VPS) was entrusted to the Commission over a period of time to provide for a holistic and consolidated regulation of those sectors. The Commission plays a fundamental role in maintaining the integrity and vitality of the capital markets, corporate, NBFC and insurance sectors and protecting the interests of investors.

The Commission is organized into five main divisions: Company Law Division; Securities Market Division; Specialized Companies Division; Insurance Division; and Support Services Division. The Commission's head-office is in Islamabad. The Securities Market Division, Specialized Companies Division and Insurance Division each have two regional offices - the southern regional office and the northern regional office - to administer the securities and corporate laws in their respective jurisdictional region. Company Law Division has eight company registration offices at different stations in the country. Organizational structure is at Annexure A.

A list of laws administered by the Commission is provided in Annexure B.

3.2 Management Team

The Commission is a collegiate body with collective responsibility. It is headed by a Commission, comprised of the Chairman and Commissioners, who are appointed by the Federal Government. 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.

Mr. Razi-ur-Rahman Khan is the fourth Chairman of the Commission. He was appointed by the Federal Government on January 12, 2006. Mr. Khan is a Fellow of Institute of Chartered Accountants of England and Wales and possesses extensive experience in corporate and capital market operations during his career spanning over thirty-three years in multinationals and international financial institutions.

In addition to the Chairman, the Commission presently has three 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 by profession, Mr. Malik possesses over thirty years experience in business operation, management, finance and accounting in Pakistan and UK.



THE COMMISSION

Subsequent to the close of the year, Mr. S. Tariq Asaf Husain joined the Commission as Commissioner (Law). A lawyer by profession, he brings with him over 35 years of experience. Mr. Husain practiced in the High Courts and Supreme Court of Pakistan and also lectured at the Sindh Muslim Law College, Karachi. Additionally, he worked abroad as a senior counsel with major corporations, managing their legal risks.



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 1977. He has served as Commissioner Specialized Companies, Company Law, Enforcement and Monitoring and Support Services Divisions in the past.

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

During the year, Mr. Shafaat Ahmad, Executive Director (Insurance) retired from service and Ms. Amber Dar, Executive Director (Law) left the Commission. Subsequent to the close of the year, Mr. Muhammad Hayat Jasta, Secretary to the Commission and Mr. Imtiaz Haider, Executive Director (SMD - North) also left the Commission.

The following Executive Directors were heading the Divisions/Departments as at the close of the year:

- Mr. Zafar Abdullah - Securities Market Division
- Mr. Akif Saeed - Specialized Companies Division
- Mr. Nazir Ahmed Shaheen - Registration Department
- Mr. Tahir Mahmood - Enforcement and Monitoring Department
- Mr. Javed K. Siddiqui - Finance and Administration Department
- Mr. Arshad Javed Minhas - Information Systems and Technology Department
- Mr. Mansur Ahsan - Human Resource and Training Department

3.3 Divisions

The Commission's operations were being performed by the following Divisions:

- Company Law Division;
- Securities Market Division;
- Specialized Companies Division;
- Insurance Division;
- Support Services Division;
- Chairman's Secretariat; and
- Legal Department

3.4 Securities and Exchange Policy Board

3.4.1 Policy Board Membership

While ensuring full autonomy of the Commission, the Securities and Exchange Commission of Pakistan Act provides that the Federal Government shall appoint the Securities and Exchange Policy Board which is responsible to oversee the performance of the Commission and to take policy decisions in respect of the matters within the jurisdiction of the Commission. In June 2007, the composition of the Policy Board was expanded from nine to ten members, of which six shall be from the public sector and four from the private sector.

THE COMMISSION

Six members from public sector include *ex-officio* the Finance Minister or, in his absence, the Adviser to Prime Minister on Finance; Secretary, Finance Division; Secretary, Law and Justice Division; Secretary, Commerce Division; Chairman of the Commission and Deputy Governor of SBP Dr. Salman Shah, Adviser to the Prime Minister on Finance was nominated as the Chairman of the Policy Board, subsequent to the close of the year.

Four members from private sector are well known for their integrity, expertise and experience in commerce and industry, corporate law, accountancy, financial services, investment, insurance, banking or academia.

During the year under review, Mr. Tawfiq A. Husain retired as Deputy Governor SBP and was succeeded by Mr. Mansur-Ur-Rehman Khan. Subsequent to the close of the year, Mr. Tanvir Ali Agha retired as Secretary Finance and Mr. Ahmad Waqar joined the Board in his place.

As on 30 June 2007, the Policy Board consisted of:



Dr. Salman Shah
Chairman
Securities and Exchange
Policy Board



Mr. Razi-ur-Rehman Khan
Chairman
Securities and Exchange
Commission of Pakistan



Tanvir Ali Agha
Secretary
Finance Division



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



Syed Asif Shah
Secretary
Commerce Division



**Mr. Mansur-ur-
Rehman Khan**
Deputy Governor
State Bank of Pakistan



Mr. Zubayr I. Soomro
Managing Director
Citigroup



**Dr. Mohammad
Zubair Khan**
Managing Director
Financial Techniques
International



Dr. Shahida Jaffrey
Vice Chancellor
Sardar Bahadur Khan
Women University

THE COMMISSION

3.4.2 Policy Board Meetings

Seven meetings of the Policy Board were held during the year (4 in 2006 and 3 in 2007). The Board was taken into confidence about the hiring of forensic investigators to investigate the Karachi Stock Exchange events of March 2005 and reviewed their report. The Board was also apprised about the Market Monitoring and Surveillance System being installed by the Commission to augment its market monitoring & surveillance capacity up to international level. The Board was kept posted on the developments on demutualization of stock exchanges and commencement of operations by the National Commodity Exchange Limited. It also considered and approved the annual budget of the Commission for the financial year 2007-08 and performance/market based new terms and conditions of employment for the officers of the Commission. The major issues which were discussed in the aforesaid meetings included the following:-

- Establishment of Southern Regional Office of the Commission at Karachi
- Approval of additional manpower in Southern Region and Northern Region of the Commission
- Approval of revised salary package for employees of the Commission
- Approval of budget of the Commission for the year 2007-2008
- Seventh Annual Report of the Commission and the audited financial statements for the year 2005-06
- Risk Management regime introduced in the stock exchanges
- Approval of "Human Resource Hand Book of the Commission"
- Performance/Market based new Terms and Conditions of employment for Chairman and Commissioners
- Mandatory adoption of Central Depository System (CDS) by all listed companies
- Market Monitoring and Surveillance System Implementation
- Client Level Netting Impact on Market
- Demutualization of Stock Exchanges
- Allotment of a Plot for SECP Office Building
- Operationalization of the National Commodity Exchange
- Progress review on the Real Estate Investment Trust (REITs) and Private Equity Fund Rules
- Approval of Performance Bonus to officers of the Commission



Meeting of SECP Policy Board in progress under the chairmanship of Dr. Salman Shah

Chapter 4

Financial Statements

| | |
|--|----|
| Auditors' Report to the Federal Government | 17 |
| Balance Sheet | 19 |
| Income and Expenditure Account | 20 |
| Cash Flow Statement | 21 |
| Statement of Changes in Funds | 22 |
| Notes to the Financial Statements | 23 |

FINANCIAL STATEMENTS



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INDEPENDENT AUDITOR'S REPORT TO FEDERAL GOVERNMENT OF PAKISTAN ON THE FINANCIAL STATEMENTS OF SECURITIES & EXCHANGE COMMISSION OF PAKISTAN.

We have audited the accompanying financial statements of Securities and Exchange Commission of Pakistan ("the Commission"), which comprise the balance sheet as at 30 June 2007, and the income and expenditure account, cash flow statement and statement of changes in funds for the year then ended, and a summary of significant accounting policies and other explanatory notes ("the financial statements").

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the policies given in note 3. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as applicable in Pakistan. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG-TA

KPMG Taseer Hadi & Co. Chartered Accountants
and as such are not a member of any other body
of accountants (KPMG Taseer Hadi & Co. Chartered Accountants)

FINANCIAL STATEMENTS



KPMG Taseer Hadi & Co.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Securities and Exchange Commission of Pakistan as of 30 June 2007, and of its financial performance and its cash flows for the year then ended in accordance with the policies given in note 3.

Without qualifying our opinion we draw attention to notes 3.5 and 14.1 detailing the reasons for restatement of previous years' figures.

ISLAMABAD
21 AUG 2007

KPMG Taseer Hadi & Co.
KPMG TASEER HADI & CO.
CHARTERED ACCOUNTANTS
KPMG-TA

FINANCIAL STATEMENTS

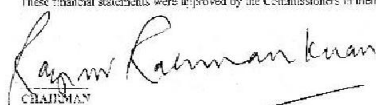
Securities and Exchange Commission of Pakistan
Balance Sheet

As at 30 June 2007

| | Note | 2007 (Rupees '000) | 2006 Restated |
|---|------|-----------------------|------------------|
| Property, plant and equipment | 4 | 164,471 | 107,571 |
| Capital work in progress | 5 | 22,442 | - |
| Long term investments - held to maturity | 6 | 284,045 | 291,350 |
| Long term loans to employees | 7 | 2,356 | 2,001 |
| Current assets: | | | |
| Advances, deposits, prepayments and other receivables | 8 | 141,218 | 102,326 |
| Short term investments | 9 | 2,236,257 | 1,555,473 |
| Cash and bank balances | 10 | 104,286 | 163,346 |
| Current liabilities: | | | |
| Accrued and other liabilities | 11 | (56,531) | (72,147) |
| Net current assets | | 2,425,230 | 1,948,098 |
| Deferred liability for employees' retirement benefit | 12 | (25,606) | (24,943) |
| Deferred grant | 13 | (2,211) | (2,486) |
| Net assets | | <u>2,870,637</u> | <u>2,122,491</u> |
| Represented by: | | | |
| Funds | 14 | 2,870,637 | 2,122,491 |
| | | <u>2,870,637</u> | <u>2,122,491</u> |
| Contingencies and commitments | 15 | | |

The annexed notes from 1 to 25 form an integral part of these financial statements.
These financial statements were approved by the Commissioners in their meeting held on

12 AUG 2007


CHAIRMAN


COMMISSIONER

FINANCIAL STATEMENTS

Securities and Exchange Commission of Pakistan
Income and Expenditure Account

For the year ended 30 June 2007

| | Note | 2007 Rupees '000 | 2006 Restated |
|---|------|---------------------|------------------|
| Income | | | |
| Fees and other recoveries | 16 | 1,216,923 | 1,204,066 |
| Other income | 17 | 192,672 | 130,760 |
| | | <u>1,409,595</u> | <u>1,334,826</u> |
| Expenditure | | | |
| Salaries, allowances and other benefits | 18 | 387,283 | 331,977 |
| Operating expenses | 19 | 238,237 | 136,291 |
| Depreciation | | 27,653 | 21,492 |
| Amortization of premium on Pakistan Investment Bonds | | 7,305 | 7,453 |
| Bank charges | | 1,246 | 187 |
| | | <u>661,724</u> | <u>497,401</u> |
| Excess of income over expenditure | | <u>747,871</u> | <u>837,425</u> |
| Transferred from deferred grant | | 275 | 9,558 |
| Surplus of income over expenditure for the year | | <u>748,146</u> | <u>846,983</u> |
| Surplus of income over expenditure brought forward | | <u>322,491</u> | <u>275,508</u> |
| Accumulated surplus | | <u>1,070,637</u> | <u>1,122,491</u> |
| Transferred to assets (land and building) acquisition reserve | | (800,000) | (400,000) |
| Transferred to general reserve | | - | (400,000) |
| Surplus of income over expenditure carried forward | | <u>270,637</u> | <u>322,491</u> |

The annexed notes from 1 to 23 form an integral part of these financial statements.


CHAIRMAN


COMMISSIONER

FINANCIAL STATEMENTS

Securities and Exchange Commission of Pakistan
Cash Flow Statement

For the year ended 30 June 2007

| | 2007 | 2006 |
|--|---------------|-----------|
| | (Rupees '000) | |
| Cash flows from operating activities | | |
| Surplus of income over expenditure for the year | 747,871 | 837,475 |
| Adjustments for: | | |
| - Depreciation for the year | 27,653 | 21,493 |
| - Amortization of premium on Pakistan Investment Bonds | 7,305 | 7,453 |
| - Provision for pension | 24,592 | 20,340 |
| - Provision for gratuity | 16,265 | 11,965 |
| - Expenses for leave encumbrance | 3,475 | 11,114 |
| - Interest income | (192,313) | (435,819) |
| - Gain on sale of property, plant and equipment | (1,641) | (2,837) |
| | (113,277) | (56,882) |
| Operating income before working capital changes | 634,594 | 781,143 |
| Increase in loans, advances, deposits, prepayments and other receivables and increase in accrued and other liabilities | (36,887) | (17,119) |
| | 7,130 | 8,931 |
| Contribution to pension fund | 694,827 | 772,955 |
| Contribution to gratuity fund | (42,306) | (1,200) |
| Leaves encashed | (21,208) | (5,700) |
| Contribution on account of civil servant paid to Government of Pakistan | (2,722) | (2,269) |
| Net cash generated from operating activities | 536,601 | 763,752 |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (84,573) | (58,554) |
| Proceeds from sale of property, plant and equipment | 184 | 3,400 |
| Capital work in progress | (22,442) | - |
| Net increase in short term investments | (688,784) | (792,362) |
| Interest received on investments and bank deposits | 189,954 | 93,787 |
| Net cash used in investing activities | (597,661) | (723,412) |
| Net (decrease)/increase in cash and cash equivalents | (59,060) | 9,603 |
| Cash and cash equivalents at beginning of the year | 163,546 | 153,743 |
| Cash and cash equivalents at end of the year | 104,286 | 163,346 |

The approved notes from 1 to 25 form an integral part of these financial statements.

Raza Raza Khan
CHIEF EXECUTIVE OFFICER

Raza Raza Khan
COMMISSIONER

FINANCIAL STATEMENTS

Securities and Exchange Commission of Pakistan

Statement of Changes in Funds

For the year ended 30 June 2007

| Source of funds provided by CUP | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet 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Capital expenditure | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet | Capital expenditure | Balance sheet |
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FINANCIAL STATEMENTS

Securities and Exchange Commission of Pakistan

Notes to the Financial Statements

For the year ended 30 June 2007

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. Capital work in progress 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. 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 up to the date of disposal.

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 and equipment are included in the income currently.

3.2. Receivables

These are stated at cost less 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. Effective from 01 January 2007, the Commission offered new terms and conditions to all its staff those who opted for these are entitled to provident fund as well as gratuity but not for pension. As on 30 June 2007 total 136 employees opted for these new terms and conditions. The Commission's contribution to defined Contributory Provident Fund is charged to income and expenditure account for the year.

KAWAZH

FINANCIAL STATEMENTS

Securities and Exchange Commission of Pakistan

Notes to the Financial Statements

For the year ended 30 June 2007

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, 2007.

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

The future contribution rate of these plans includes allowance for deficit or surplus. The "Projected Unit Credit Method" based on following significant assumptions were used:

| | |
|---------------------------------------|----------|
| 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. Deferred grant

Grant related to fixed assets are accounted for by setting-up the grants as deferred grants. These grants are recognized as income on a systematic basis over the useful life of the assets.

Grants related to assets which were previously included in fund balance as assets acquired from dissolved Corporate Law Authority, reappropriation of funds by CQP and technical assistance from Asian Development Bank, have now been accounted for and presented as deferred grant in accordance with the International Accounting Standard - 20 "Accounting for Government Grants and Disclosures of Government Assistance". This change has been made retrospectively as per the International Accounting Standard - 8 "Accounting Policies, Changes in Accounting Estimates and Errors" with restatement of the comparative figures. The effect of this restatement is given in the income and expenditure account, statement of changes in funds and note 13.1 to the financial statements.

If the above referred change not been made, fund balance as of 30 June 2007 would have been higher by Rs. 2.211 million and accumulated surplus of income over expenditure as of 30 June 2007 would have been lower by Rs. 58.165 million which is the amount of amortization of deferred grant.

3.6. 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 investments and bank deposits is recognized on time proportion basis.

KAWAZH

Securities and Exchange Commission of Pakistan
Notes to the Financial Statements
For the year ended 30 June 2007

3.2 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.

3.8 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.

3.9 Investments

Held to maturity

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 such investments is amortized using effective interest method.

Available for sale

Investments available for sale are initially recognized at cost, being the fair value of the consideration given. Subsequent to initial recognition for investments traded in active market, fair value is determined by reference to quoted market price. The resultant gains and losses are recognized directly in funds through the statement of changes in funds.

3.10 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.

3.11 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 and amortized cost respectively. The Commission derecognizes financial assets and liabilities when it ceases to be a party to such contractual provisions of the instruments.

3.12 Cash and cash equivalents

For the purposes of cash flow statement, cash and cash equivalents comprise cash in hand and bank balances.

Securities and Exchange Commission of Pakistan
Notice to the Financial Statements
For the year ended 30 June 2007

4. Property, plant and equipment

(Runners in EXTs)

Statement of operating assets as of 30 June 2004 is as follows:

| | Landheld land | Building on leasedhold- ing | Leasehold improvement | Other equipment | Computers | Furniture and fixtures | Vehicles | Total |
|---|-----------------------|-----------------------------------|--------------------------|--------------------|-----------|---------------------------|----------|-----------|
| | REPRESENTATIVE | | | | | | | |
| Cost | 2,055 | 33,313 | 17,849 | 19,561 | 22,267 | 23,628 | 16,576 | 212,132 |
| Accumulated depreciation | - | (9,955) | (1,116) | (15,133) | (17,587) | (14,090) | (32,606) | (116,941) |
| Opening net book value as at 30 June 2006 | 2,055 | 23,358 | 16,733 | 4,428 | 4,680 | 10,538 | 14,114 | 87,991 |
| Additions during the year | - | - | 7,662 | 3,073 | 15,724 | 196 | 33,818 | 56,373 |
| Disposals | - | - | - | - | - | - | - | - |
| Cost | - | - | - | - | - | - | (1,255) | (1,255) |
| Depreciation | - | - | - | - | - | - | 1,255 | 1,255 |
| Disposals during the year | - | (5,436) | (4,946) | (3,558) | (10,662) | (2,395) | (9,236) | (27,633) |
| Closing net book value as at 30 June 2007 | 2,055 | 17,922 | 23,855 | 3,870 | 16,122 | 8,243 | 25,153 | 166,641 |
| Cost | 2,055 | 33,313 | 22,502 | 33,954 | 129,495 | 33,716 | 37,179 | 305,109 |
| Accumulated depreciation | - | (11,451) | (1,541) | (18,083) | (22,949) | (15,151) | (20,724) | (110,401) |
| Net book value as at 30 June 2007 | 2,055 | 21,862 | 20,961 | 15,871 | 106,546 | 18,565 | 16,455 | 194,708 |
| Depreciation rate | - | 5% | 20% | 20% | 20% | 10% | 20% | - |

Statement of operating assets as at 30 June 2006 is as follows:

| | Leasehold land | Buildings land | Leasehold improvement | Office equipment | Computers | Furniture and fixtures | Vehicles | Total |
|--|-------------------|-------------------|--------------------------|---------------------|-----------|---------------------------|----------|-----------|
| UPPER MERIDIAN | | | | | | | | |
| Cost | 1,221 | 33,213 | 1,814 | 1,877 | 25,113 | 21,059 | 16,725 | 176,022 |
| Accumulated depreciation | - | (9,340) | (3,133) | (43,999) | (20,515) | (6,033) | (12,077) | (96,077) |
| Carrying net book value as at 30 June 2005 | 1,221 | 24,873 | 1,482 | 1,438 | 2,598 | 12,135 | 5,648 | 79,945 |
| Additions during the year | 822 | - | 38 | 2,301 | 22,893 | 1,015 | 22,565 | 50,534 |
| Disposals | - | - | - | - | (1,250) | - | (4,637) | (15,699) |
| Cost | - | - | - | (10,462) | - | - | (4,637) | (15,127) |
| Depreciation | - | - | - | (199) | - | - | - | (199) |
| Depreciation during the year | - | (1,659) | 764 | (1,436) | (12,739) | 3,218 | (3,213) | (14,094) |
| Carrying net book value as at 30 June 2006 | 1,803 | 23,214 | 786 | 2,699 | 11,354 | 1,831 | 354 | 121,511 |
| Cost | 2,013 | 33,212 | 14,880 | 19,981 | 83,371 | 22,821 | 16,546 | 232,724 |
| Accumulated depreciation | - | (9,998) | (14,104) | (45,733) | (29,055) | (10,544) | (12,044) | (114,444) |
| Net book value as at 30 June 2006 | 2,013 | 23,214 | 786 | 2,699 | 11,354 | 11,011 | 3,501 | 121,511 |
| Depreciation as at | - | 5% | 25% | 5% | 25% | 10% | 20% | |

4.) The gross carrying amount of fully depreciated office equipment, leasehold improvements, computers and vehicles that are still in use amounted to Rs. 11,986 thousand, Rs. 42,854 thousand and Rs. 4,148 thousand respectively.

improvements, computers and
respectively.

FINANCIAL STATEMENTS

Securities and Exchange Commission of Pakistan
Notes to the Financial Statements
For the year ended 30 June 2007

| | 2007 | 2006 |
|--|----------------|----------------|
| | (Rupees '000) | |
| 5. Capital work in progress | | |
| Advances for: | | |
| Renovation of office premises | 11,392 | - |
| Development of software | 22,412 | - |
| 6. Long term investments - Held to maturity | | |
| Face value | 255,000 | 255,000 |
| Unamortised premium | 49,045 | 50,132 |
| | <u>284,045</u> | <u>281,132</u> |

These securities investment is ten years Pakistan Investment Bonds (PIB) having face value of Rs. 255 million. Profit from sale of a security is 10% of the cost ranging between 7% to 12% per annum. Fair value of these PIBs at the year end was Rs. 243,132 million (2006: Rs. 246,132 million).

7. Long term loans to employees-owned, controlled good

These employees long term loans given to eligible employees who contributed for specially purchase house purchase and house repair etc. These are secured against retirement benefits and superannuation. These loans carry mark-up at bank rate except for house repair and purchase which carry mark-up at half of the bank rate. House rent advance given to employees does not carry mark-up. Interest is receivable on a monthly basis and mark-up after accounts recovery of principal.

| | 2007 | 2006 |
|---|----------------|----------------|
| | (Rupees '000) | |
| 8. Advances, deposits, prepayments and other receivables | | |
| Current portion of long term loans to employees-owned good | 6,628 | 6,294 |
| Advances | 31,879 | 19,422 |
| Deposits | 2,578 | 2,432 |
| Prepayments | 6,962 | 2,804 |
| Due to staff members | 11,960 | 5,070 |
| Due receivable - controlled good | 19,605 | 10,510 |
| Receivable against projects-controlled good | 8,438 | 6,660 |
| Mark up receivable on Pakistan Investment Bonds | 20,301 | 16,190 |
| Mark up receivable on short term investments | 31,348 | 34,110 |
| Mark up receivable on loans to employees | 367 | 268 |
| Other receivables - controlled good | 4,098 | 927 |
| | <u>141,219</u> | <u>122,229</u> |

| | 2007 | 2006 |
|----------------------------------|---------------|------------------|
| | (Rupees '000) | |
| 9. Short term investments | | |
| Mark up receivable | 92 | 436,257 |
| Available for sale | 92 | <u>1,800,000</u> |
| | | <u>1,831,471</u> |

9.1 This represents investment in four deposits which are placed with different banks. Profit is realizable at the time of maturity at the rates ranging between 8.15% to 11.20% per annum.

9.2 This represents investment in National Saving Scheme which are placed with National Saving Centre. Profit is realizable at the rate of 9% per annum.

| | 2007 | 2006 |
|-----------------------------------|----------------|----------------|
| | (Rupees '000) | |
| 10. Cash and bank balances | | |
| Cash in hand | 4 | 37 |
| Cash at bank on: | | |
| current accounts | (8,516) | (1,153) |
| deposit accounts | (12,816) | (52,428) |
| | <u>104,282</u> | <u>163,109</u> |
| | <u>104,286</u> | <u>163,146</u> |

FINANCIAL STATEMENTS

Securities and Exchange Commission of Pakistan
Notes to the Financial Statements
For the year ended 30 June 2007

| | 2007 | 2006 |
|---|---------------|---------------|
| | (Rupees '000) | |
| 11. Accrued and other liabilities | | |
| Accrued expenses | 27,984 | 13,710 |
| Accrued payable | 21 | 341 |
| Payable to staff retirement funds | 71.3 | 25,242 |
| Unrecorded income | 1,601 | 23,868 |
| Claims payable under Credit Advances | - | 1,371 |
| Other liabilities | 8,391 | 2,779 |
| | <u>38,011</u> | <u>43,141</u> |
| 11.1 Payable to staff retirement funds | | |
| Pension Fund | 11.1.1 | 4,148 |
| Gratuity Fund | 11.1.2 | 2,397 |
| | | <u>6,545</u> |

11.1.1 Pension fund

Reconciliation of the amount recognized in balance sheet is as follows:

| | | |
|---|--------------|----------------|
| Net present value of defined benefit obligation | 147,086 | 109,614 |
| Fair value of plan assets | (85,886) | (80,295) |
| Deficit in the fund | 61,200 | 29,319 |
| Net unrecognized actuarial losses | (56,126) | (35,847) |
| Net liability recognized in the balance sheet | <u>5,074</u> | <u>(6,528)</u> |

Movement in net liability recognized

| | | |
|---|---------------|--------------|
| Opening net liability | 31,972 | 2,384 |
| Expense for the year | 28,502 | 22,242 |
| Pay contributions during the year | (42,399) | (1,200) |
| Contributions in excess of fund amount paid to Government of Pakistan | - | (154) |
| Closing net liability | <u>18,075</u> | <u>2,372</u> |

Charges for the year

| | | |
|--------------------------------|---------------|---------------|
| Current service cost | 18,511 | 18,962 |
| Interest cost | 18,017 | 15,353 |
| Expected return on plan assets | (6,000) | (5,900) |
| Interest on technical account | (7,836) | (6,714) |
| Actuarial loss recognized | 1,194 | 824 |
| | <u>23,892</u> | <u>22,525</u> |

11.1.2 Gratuity fund

Reconciliation of the amount recognized in balance sheet is as follows:

| | | |
|---|--------------|--------------|
| Present value of defined benefit obligation | 70,145 | 40,207 |
| Fair value of plan assets | (37,356) | (25,118) |
| Deficit in the fund | 32,789 | 15,089 |
| Net unrecognized actuarial losses | (31,424) | (1,549) |
| Unrecognized liability not yet recognized | - | 6,000 |
| Net liability recognized in the balance sheet | <u>1,365</u> | <u>9,540</u> |

2006-2007

FINANCIAL STATEMENTS

Securities and Exchange Commission of Pakistan
Notes to the Financial Statements
For the year ended 30 June 2007

| | 2007 | 2006 |
|--|---------------|---------------|
| | (Rupees '000) | (Rupees '000) |
| Revenues to net liability, recognised | | |
| Revolving credit facility | 7,330 | 7,550 |
| Revenue for the year | 16,265 | 17,507 |
| Revenue during the year | 221,258 | 22,707 |
| Offsetting net liability | 2,357 | 2,100 |
| Charges for the year | | |
| Current service cost | 14,197 | 10,925 |
| Current cost | 4,022 | 5,246 |
| Expense on share in plan assets | (2,412) | (2,444) |
| Actuarial losses recognised | 490 | 254 |
| Recognised from future assets | 810 | 30 |
| | <u>16,108</u> | <u>13,992</u> |

11.2. Deferred Income

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

12. Deferred Liability for employees' retirement benefit

This represents the Commission's liability towards employees' compensation schemes which is payable at the time of retirement of a retiree.

| | 2007 | 2006 |
|--------------------------------|---------------|---------------|
| | (Rupees '000) | (Rupees '000) |
| 12.1. Deferred grant | | |
| Opening balance | 2,436 | 12,064 |
| Less depreciation for the year | (275) | (3,525) |
| | <u>2,161</u> | <u>8,539</u> |

13.1. Grants related to assets which were included in fixed assets have now been presented as deferred income in accordance with the International Accounting Standard (IAS) - 20 "Accounting for Government Grants and Disclosure of Government Assistance". This change has been made retrospectively as per International Accounting Standard - 8 "Accounting Policies, Changes in Accounting Estimates and Errors" with restatement of the comparative figures. Amounts restated.

| | 2007 | 2006 |
|---|------------------|------------------|
| | (Rupees '000) | (Rupees '000) |
| 14. Funds | | |
| General reserve | 590,000 | 860,000 |
| Asset related and banking liquidity reserve | 1,000,000 | 1,000,000 |
| Surplus of income over expenditure | 170,637 | 292,761 |
| | <u>2,870,637</u> | <u>2,152,761</u> |

14.1. Grant provided by Government of Pakistan has been taken to replace of income over expenditure in accordance with the International Accounting Standard (IAS) - 20 "Accounting for Government Grants and Disclosure of Government Assistance". This change has been made retrospectively as per International Accounting Standard - 8 "Accounting Policies, Changes in Accounting Estimates and Errors" with restatement of the comparative figures. This change has been made with restatement of income over expenditure used. It has been noted by Rs. 50,000 increased.

15. Contingencies and commitment

15.1. Contingencies

Certain parties have filed suits against the Commission in respect of revenue charges of these Rs. 100 million, Rs. 1.4 million and Rs. 100 million relate to charges claimed by Mr. Farooq Khan, Mr. Farooq Khan, Mr. Farooq Khan and Mr. Farooq Khan respectively. The Commission is hopeful that it will be able to settle these suits in its favour. The Commission is not aware of any other suits filed against the Commission.

Further, the Commission has reasonable doubt in relation to the contingent liability of these suits which may result in any adverse exposure on the Commission.

FINANCIAL STATEMENTS

Securities and Exchange Commission of Pakistan
Notes to the Financial Statements
For the year ended 30 June 2007

15.2. Commitment

Aggregate commitment for contracted capital expenditure at end of the year amounted to Rs. 85,410 million.

| | 2007 | 2006 |
|---|------------------|------------------|
| | (Rupees '000) | (Rupees '000) |
| 16. Fees and other recoveries | | |
| Fees under Companies Ordinance, 1984 | 236,745 | 658,534 |
| Fees under Companies Ordinance, 1980 | 1,234 | 3,235 |
| Fees under Insurance Ordinance, 2003 | 49,573 | 42,542 |
| Fees on transactions carried out at stock exchanges and oil companies | 240,612 | 318,757 |
| Revenues received from | | |
| Fees from Non-Banking Finance Companies | 181,561 | 177,534 |
| | <u>1,216,923</u> | <u>1,204,592</u> |
| 17. Other income | | |
| Interest on bank deposits | 9,354 | 42,344 |
| Interest on Pakistan Investment Bonds | 25,389 | 35,309 |
| Interest on short term investments | 157,066 | 55,421 |
| Interest on loans to employees | 653 | 507 |
| Other income | 185 | 2,111 |
| Gain on sale of property, plant and equipment | 161 | 2,837 |
| | <u>182,672</u> | <u>95,528</u> |
| 18. Salaries, allowances and other benefits | | |
| Basic salary | 152,581 | 140,158 |
| Housing allowance | 50,910 | 36,005 |
| Medical allowance | 18,877 | 12,748 |
| Conveyance allowance | 10,794 | 9,557 |
| Utilities | 15,159 | 12,643 |
| Other allowances | 17,891 | 19,644 |
| Provision for pension | 24,582 | 25,242 |
| Provision for gratuity | 6,695 | 3,544 |
| Provision for provident fund | 16,245 | 11,345 |
| Provision for leave encashment | 3,475 | 11,114 |
| Provision for retirement allowance | 16,163 | 11,833 |
| | <u>387,183</u> | <u>311,477</u> |
| 19. Operating expenses | | |
| Repairs and maintenance | 11,346 | 5,494 |
| Traveling and conveyance | 38,653 | 24,917 |
| Telephone, postage and courier | 20,485 | 13,121 |
| Utilities | 4,597 | 5,279 |
| Rent and rates | 45,644 | 47,768 |
| Printing and stationery | 8,816 | 7,831 |
| Legal and professional charges | 11,685 | 5,387 |
| Fees and subscriptions | 2,554 | 1,452 |
| Human resources development | 7,154 | 3,507 |
| Security and surveillance | 2,000 | 1,633 |
| Insurance cost | 64,678 | 1,118 |
| Revenue | 2,392 | 1,118 |
| Administration | 4,278 | 5,344 |
| Entertainment | 1,498 | 1,071 |
| Audit fee | 200 | 150 |
| Donations for social welfare of staff | 7,167 | 9,345 |
| Others | <u>258,227</u> | <u>136,221</u> |

19,44,724

FINANCIAL STATEMENTS

Securities and Exchange Commission of Pakistan
Notes to the Financial Statements
For the year ended 30 June 2007

20. Financial instruments and related disclosures

20.1 Interest rate risk exposure

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

| FINANCIAL INSTRUMENTS | Interest bearing | | Non interest bearing | |
|---|---------------------|--------------------|----------------------|---------|
| | Due within one year | Due after one year | | |
| | 2007 | 2006 | 2007 | 2006 |
| | (Rupees '000) | | | |
| Financial Assets | | | | |
| Long term investments | - | - | 284,915 | 291,250 |
| Loans to employees | 5,384 | 5,294 | 2,356 | 2,001 |
| Advances and other receivables | - | - | - | 1,144 |
| Short term investments | 2,296,242 | 1,555,473 | - | 81,286 |
| Cash and bank balances | 112,816 | 125,246 | - | - |
| Total | 2,354,357 | 1,732,013 | 286,401 | 293,351 |
| | | | 79,020 | 36,574 |
| Financial Liabilities | | | | |
| Accrued and other liabilities | - | - | - | 82,930 |
| Total | - | - | - | 82,930 |
| | | | | 46,281 |
| Excess of financial assets over financial liabilities | 2,354,357 | 1,732,013 | 286,401 | 293,351 |
| | | | | 21,696 |
| | | | | 10,343 |

20.2 Credit risk

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

20.3 Foreign exchange risk management

Foreign currency risk arises mainly when receivables and payables exist due to transaction with foreign undertakings. The Commission is not exposed to foreign exchange risk.

20.4 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 stated in note 6.

21. Administered projects

21.1 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 Technical Fund, has been assigned to the Commission. An amount of US\$ 359,900 has been allocated for this component and out of this, a sum of Rs. 6,359,669 (equivalent US\$ 109,994) has been expended upto 30 June 2007. An amount of Rs. 1,725,933 is receivable from World Bank on account of short recovery of funds. The project will be completed by the end of January 2008.

KARACHI

FINANCIAL STATEMENTS

Securities and Exchange Commission of Pakistan
Notes to the Financial Statements
For the year ended 30 June 2007

21.2 Capacity Building for Capital Market Development and Corporate Governance

Asian Development Bank has provided a technical assistance under which Asian Development Bank has to provide US\$ 635,000 and Government of Pakistan has to provide US\$ 1.4 million for Capacity Building for Capital Market Development and Corporate Governance. Out of this, a sum of US\$ 1,060,299 has been expended upto 30 June 2007. An amount of Rs. 1,326,674 is receivable from ADB on account of short recovery of funds. The project has been completed on the end of June 2007.

21.3 Capacity Building of the Commission

The World Bank approved a grant of Rs. 27,126,534 (US\$ 456,000) to the Commission under Institutional Development Fund. The Commission will contribute US\$ 5,25,000 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. 1,480,830 (equivalent US\$ 24,640) has been expended upto 30 June 2007. The project will be completed by the end of April 2008.

22. 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 inapplicable to quantify for disclosure in these financial statements.

23. General

23.1 Figures have been rounded off to the nearest thousand of rupees.

KARACHI
Raza Raza Khan
CHAIRMAN
M. Yousaf
COMMISSIONER

Chapter 5

Chairman's Secretariat

| | |
|--|----|
| Appellate Bench..... | 35 |
| Internal Audit..... | 36 |
| Monitoring and Compliance | 36 |
| Media & Publication | 37 |
| Foreign Relations | 37 |
| Project Management | 37 |
| Anti Money Laundering..... | 38 |
| Corporate Governance Project..... | 39 |
| Development of Chartered Accountancy Profession..... | 40 |
| Tax Reforms..... | 40 |

Chairman's Secretariat

OBJECTIVE: To assist the Chairman and coordinate with other departments of the SECP and external entities, as necessary, in achieving the objectives of the SECP in an efficient and holistic manner.

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

CS is headed by Syed Fayyaz Mahmud, Director. He is a seasoned professional having more than thirty year of experience in administration of corporate laws and serves under the direct supervision of the Chairman. Mr. S. Gulrez Yazdani has joined as Executive Director (CS) in February 2008.



Officers of CS with ED S. Gulrez Yazdani

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.

Appeals filed against orders passed by a single Commissioner or any officer of the Commission are heard by Appellate Benches, which comprise of two Commissioners each. The Commissioner who passed the order against which the appeal has been filed can not be on the Bench which hears the review appeal.

The Appellate Bench is assisted by the Appellate Bench Registry. The Registry receives and scrutinizes the appeals under the Securities and Exchange Commission of Pakistan (Appellate Bench Procedure) Rules 2003.

CHAIRMAN'S SECRETARIAT

During the year, 41 appeals were filed before the Appellate Bench against orders passed by Commissioners, Executive Directors and Directors. The Appellate Bench disposed off 19 appeals, out of which 4 appeals were accepted and 15 were dismissed.

Disposal of appeals is likely to improve with the appointment of Commissioners against vacant positions and restructuring/constitution of more benches.

5.3 Internal Audit

Internal Audit Department serves as an independent appraisal function within the Commission. It works in accordance with the Internal Audit Manual and under the guidance of an internal audit committee. The department seeks to identify and mitigate operational risks and improve efficiency and effectiveness of use of the Commission's resources. It operates on post audit procedures aimed at:

- Review of payroll processing, petty cash management, revenue collection, travel, procurement and administration functions.
- Monthly review of budget allocations and utilization.
- Revenue Assurance assignments on Transaction fee, Registration, Mortgage, Penalties and other fees.
- Review of the efficacy of monthly MIS reports and annual accounts of the Commission.
- Post-audit of transactions of the Support Services Division of the Commission.
- Review and Audit of the control environment at the Company Registration Offices (CROs).
- Pre-audit of all final settlements of employees.

5.4 Monitoring and Compliance

The Monitoring and Compliance Unit in the Chairman's Secretariat maintains a regular vigilance and ensures an appropriate and expeditious resolution of the grievances, complaints and queries of the public and investors against the stock exchange members, brokers, and managements of the companies. The Unit also reviews the performance of other divisions of the Commission through periodic reports; handles the references received from the ministries and follows up the correspondence received at the Chairman's office to ensure compliance with the Chairman's instructions.

In order to create awareness within the stakeholders about the availability of vigilance mechanism and how the stakeholders can make best use of the facility, the Commission has placed the instructions on filing of a complaint on its website. The information and forms have also been made available at the CROs and the stock exchanges. Investors, entities and general public can forward any query or complaint online through the links available at the Commission's website besides using the regular mail. The Unit has a reporting mechanism whereby a track is kept of the status of complaints and queries received.

The nature of complaints received included:

- Non-transfer of shares
- Unauthorized trading (sale/purchase)
- Unauthorized transfer/movement of shares
- Non-supply of statements of account
- Non-receipt of annual or half yearly accounts
- Failure to execute investors' instructions/orders
- Suspension of payment
- Non-delivery of securities and
- Non-payment of dividend

Statistics of the complaints, queries and government references handled during the year has been provided in Tables 1 & 2 in the statistical section of this report.

CHAIRMAN'S SECRETARIAT

5.5 Media and Publications Unit

The Media and Publications Unit ensures smooth flow of information between the Commission and its external stakeholders, particularly print and electronic media. During the year, the Unit kept a regular liaison with media and issued updates on significant developments, initiatives and reform measures of the Commission. Press releases were issued to the media to maintain communication lines between the Commission and stakeholders on important matters.

5.6 Foreign Relations Unit

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

The FRU worked on formulating and putting in place cooperative mechanisms such as Memoranda of Understanding at the international level to facilitate the detection of cross-border misconduct. The Commission has co-operation arrangements in the form of MOUs with various organizations. These MOUs generally cover the need to exchange information about matters of regulatory concern including financial and other supervisory information, technical expertise and also inquiries as part of a larger international compliance program for the purpose of preventing illicit activities. A list of the organizations with which the Commission has signed MOUs appears in Annexure C.

5.7 Project Management Unit

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. The Unit also maintains close liaison with the Pakistan Institute of Corporate Governance to improve corporate governance practices in the country.

5.7.1 Second Generation of Capital Market Reforms Program

During the course of the year, the Asian Development Bank (ADB) initiated deliberations with the Ministry of Finance and the Commission to provide assistance for further capital market reforms. Through this program ADB is providing an assistance package for the Second Generation of Capital Market Reform Program through (i) a program loan of \$400 million to Government of Pakistan and (ii) a technical assistance (TA) grant of \$1,000,000 to the Commission to support the implementation of the Program.

The principal objectives of the Program are to (i) strengthen the enabling environment for private pension funds and other institutional investors; (ii) address policy and regulatory constraints to the development of corporate bond market; (iii) increase equity market breadth and reduce its volatility; (iv) strengthen the institutional framework by transforming the Commission into a financial services commission (v) effective supervision of NBFIs; and (vi) strengthening the governance of securities markets, market professionals and public issuers.

The TA under the program will provide support to the Second Generation Capital Market Reform Program in two major areas: (i) strengthen governance of capital markets to improve market transparency and protect investors, and (ii) support the Government's privatization strategy through the stock exchange.

CHAIRMAN'S SECRETARIAT

To strengthen the governance of capital markets and thus improve market transparency and protect investors, the TA *inter alia* contemplates the following key activities:

- (i) Establishment of a Capital Market Institute as a nongovernment certification institute to raise professional standards among market participants and professionals.
- (ii) Support the preparation of a draft law for nonbank financial companies to strengthen the mandate of the regulator vis-à-vis the different categories of such companies, with a special focus on private pension schemes.
- (iii) Create a regulatory framework for private pensions funds with a particular focus on occupational savings schemes.

The program also envisages support for the development of a Government privatization strategy through the stock exchange.

5.7.2 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. The Commission was 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 was US\$ 4.4 million out of which \$ 3 million was to be provided by ADB while the remaining portion was to be financed by the Commission. On loan closing date of June 30, 2007 US\$2.15 million was spent out of ADB's portion.

The TA mainly involved a consultancy assignment focusing on operations of a wide array of financial intermediaries i.e. stock exchanges, NBFIs 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. An international consultant was engaged to assist in developing a framework for regulation of occupational saving schemes and provide a sequential roadmap for their regulation. The consultant also reviewed the operational processes of the Commission's Pensions Wing and interacted with industry participants.

5.7.3 World Bank Assistance for Capacity Building of the Commission

In November 2005 the World Bank approved a grant for the Commission under its Institutional Development Fund facility in the amount of US\$454,000. 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 in the markets.

During the year under review, the Commission sent several of its officers on foreign trainings under this program. As of the close of the year, the Commission was in the process of appointing consultants for Commodity Exchange, Real Estate Investment Trusts and Training on Mutual Fund Inspections.

5.8 Anti-money Laundering

The Anti-Money Laundering Unit coordinates and liaises with relevant agencies, both locally and internationally, to promote AML activities in Pakistan.

CHAIRMAN'S SECRETARIAT

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. The cut-off date for TABs was 30 June 2006; in light of available funding the World Bank extended support to the AML component to 31 December 2007. The Economic Affairs Division is in the process of engaging a consultant to assess the needs of different departments/organizations for AML and train the people.

During the year under review, the Commission participated in the Asia Pacific Group on Money Laundering's annual meeting in Perth, Australia. A high-level APG delegation visited Pakistan and met with officers of the Commission. The delegation as well as APG members expressed concern over the lack of anti-money laundering legislation in Pakistan; the Anti-money Laundering Ordinance was promulgated subsequent to the close of the year.

5.9 Corporate Governance Project

It is an empirically tested fact that jurisdictions that have implemented good corporate governance measures attract more investment. It has been Commission's objective *inter alia* to initiate focus on regulatory measures which are helpful in fostering investor confidence. Towards that end, the Commission had developed and implemented a Code of Corporate Governance for listed companies in 2002. In furtherance of its objective, the Commission, in collaboration with International Finance Corporation (IFC) decided that a dedicated institute namely Pakistan Institute of Corporate Governance (PICG) needed to be established for training and education, creating awareness, undertaking research, publishing guidelines and other resource material and being a forum for discussion on corporate governance. PICG which was established in 2005 with public-private partnership has since started its activities and was primarily engaged in the following during the year:

- A Board Development Series (BDS) Program, developed with the support of IFC, has since commenced. PICG aims to address corporate governance issues at the level of the BODs of companies through inter-active workshops conducted in four parts. Each part comprises of six modules on different aspects of corporate governance and concludes with a self-assessment test that is undertaken by the participants. On successful completion of the program, the participant is awarded the status of Certified Director. During the year, there were three intakes into the program involving 108 participants who came from diverse business sectors including financial institutions, public sector enterprises, listed companies and family-owned groups. PICG has received accreditation for this Directors Education Program from Institutional Shareholder Services in USA.
- PICG organized 4 Board Orientation Workshops addressing the needs of financial institutions. These workshops were directed at understanding corporate governance practices and the role and responsibilities of the BOD. In addition, PICG organized a workshop in Lahore on succession planning and governance issues in family-owned businesses. This was followed by the creation of a Focus Group that will develop guidelines for directors of such businesses.
- Membership of PICG was initially restricted to 19 founding members but has now been opened to all companies, corporations and other institutions to increase the level of engagement in keeping with the objectives of PICG.
- A Survey on Corporate Governance Practices in Pakistan was jointly commissioned by IFC & the Commission and two roundtables were held. The survey targeted 371 organizations and provides a baseline of current practices on which to focus corporate governance reforms. There is a general awareness of good corporate governance practices and a large majority of the respondents indicated compliance with the mandatory requirements of the Code. A task force comprising of experienced corporate governance professionals has since been formed to lead this reform process.

CHAIRMAN'S SECRETARIAT

5.10 Development of Chartered Accountancy Profession

The profession of chartered accountancy is regulated by the Institute of Chartered Accountants of Pakistan (ICAP) which is a Self Regulatory Organization established under Chartered Accountants Ordinance, 1961, while the Commission has an oversight role. The 12 members Council, which regulates the affairs of the Institute, includes Chairman of the Commission.

During the year, ICAP with the approval and/or assistance of the Commission has undertaken the following steps to up-grade the quality of the services provided by the chartered accountants in Pakistan:-

- In order to make Pakistan fully compliant with the international requirements, the compliance with various International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) have been made mandatory for the listed companies with the exception of IAS-29 and IFRS 1, 4, 7 and 8 which are also being examined for adoption in Pakistan. This would make financial statements of Pakistan based on listed corporate concerns comparable with the rest of the world.
- Financial Reporting Framework for SMEs have been developed and made applicable to different categories of non-listed companies to improve the quality of their maintenance of accounts and reporting in the financial statements. Development of Financial Reporting Framework for SMEs by Pakistan has been greatly appreciated in accounting profession worldwide particularly SAFA which has approved the same for adoption in SAFA countries.
- Islamic Financial Reporting Standards on reporting requirements for Murabaha transactions and on Ijarah transactions were indigenously developed and have been notified for mandatory compliance.
- In order to eliminate conflict of interest, the non-audit services, which the auditors of listed companies have been prohibited from rendering to their audit clients, have been specified.
- To ensure proper training of C.A. students and facilitate completion of the course, the CA Bye-laws have been amended which limit the maximum number of students which can be trained by partners and fellow members of ICAP and allows students of Module E to appear in next Module F if they have a referral in only one subject.
- The quality of audit conducted by chartered accountants is subject to a review by a Quality Control Review Board, which also includes representatives from SECP, SBP and KSE. A satisfactory rating is essential for audit of listed companies. Proposals are under consideration to enhance the independent nature of this Board.

5.11 Tax Reforms

The Commission maintained its continuous liaison with the Federal Board of Revenue so as to iron out income tax anomalies and encourage investment in capital market and special investment avenues i.e. RETIs, pension schemes and venture capital. The Commission also worked closely with the FBR on development of proper incentives for holding companies. Following extensive discussions, several amendments in the Income Tax Ordinance, 2001 have been made. While the full text of the changes is available in the Tax Law, a gist of some of the notable amendments is as under:-

- Amalgamated company or companies are entitled to set off of business losses consequent to amalgamation. Definition of amalgamated company did not include company engaged in providing services which has now been included provided it is not a trading company.

CHAIRMAN'S SECRETARIAT

- A person's contribution to voluntary pension scheme was permissible for taking income tax credit if he was holding an NTN (National Tax Number). Now a person who only has CNIC/NICOP shall also be allowed the tax credit. This shall allow the tax exempt sectors such as agriculture and the non-resident Pakistanis to join these schemes.
- To dispel doubts as to eligibility of tax exemption to Private Equity, Venture Funds and their management companies, these terms have been defined. Their income shall be treated as "business income" rather than "income from other sources".
- To encourage corporatization of small businesses operating as sole proprietorships and partnerships, the definition of "Small Company" has been expanded to include companies with employees up to 250 and turnover up to Rs.250 million.
- To facilitate employees entitled to tax credit under sections 61, 62, 63 and 64, employers have been empowered to determine tax credit under those provisions.
- Profits and gains of a person who sells immovable property to REITs (Real Estate Investment Trusts) shall not attract any tax up to 30-06-2010.
- Private Equity and Venture Capital Fund shall enjoy tax exemption till June 2014.
- Distribution by Private Equity and Venture Capital Funds made out of capital gains has been made tax exempt in the hands of the recipients.
- Any gain on transfer of a capital asset of the existing stock exchange to new corporatized exchange shall be tax exempt.
- Any gain on transfer of membership right, by a member of an existing stock exchange, for acquisition of shares and trading or clearing rights acquired in new corporatized exchange shall be tax exempt.
- Levy of minimum tax shall not apply to Private Equity and Venture Capital Funds.
- Private Equity and Venture Capital Funds shall be exempt from withholding responsibilities under sections 151 and 233.
- Holding companies and subsidiary companies of 100% owned group allowed to opt to be taxed as one fiscal unit. Option to be available to local companies and to be irrevocable.
- Surrender of revenue losses between holding company and subsidiary allowed. There should be one listed company in the group and holding company should not have less than 55% share holding in the subsidiary. If none of the companies is a listed company, then shareholding in subsidiary should not be less than 75%.
- Maximum limit of investment in securities of listed companies through IPOs has been increased to Rs.300,000/- to facilitate small investors.

Chapter 6

Company Law Division

| | |
|--------------------------------------|----|
| Registration Department | 43 |
| Corporate Portfolio | 43 |
| Corporate Growth | 44 |
| Performance Overview | 46 |
| Development of Legal Framework | 47 |
| Regulatory Actions | 48 |
| Capital Issues | 48 |
| Monitoring and Enforcement | 49 |
| Developmental Activities | 50 |
| Future Plan | 51 |
| Enforcement Department | 53 |
| Performance Review | 53 |
| Regulatory Actions | 54 |
| Fraud Investigation Unit | 61 |
| Future Plans | 61 |

Company Law Division

OBJECTIVE: To promote healthy growth of corporate enterprises, protect investors and creditors, promote investment and contribute to the development of the economy.

6.1 Operational Structure

6.1.1 Structure

The Company Ordinance Law Division (CLD) regulates, monitors and enforces laws pertinent to the corporate sector. In recent years, it has introduced necessary amendments in existing laws and enacted new laws to cater to the changing business needs and scenario. The CLD also undertakes monitoring and vigilance of the corporate sector to promote transparency, accountability and good corporate governance practices.

The CLD operates with the following departments:

- **Registration Department (RD)**

Registration Department (RD) is charged with the responsibility to administer and enforce the Companies Ordinance, 1984 (the Ordinance) besides other relevant laws, rules and regulations. Its primary functions are registration of companies, monitoring the corporate compliance and regulating their statutory functions. RD is also responsible for supervision of the Company Registration Offices (CROs) located at Karachi, Sukkur, Multan, Faisalabad, Lahore, Islamabad, Peshawar and Quetta.

- **Enforcement Department (EnfD)**

Enforcement Department (EnfD) is responsible for ensuring the listed corporate sector's (excluding NBFCs, Modarabas and Insurance Companies) compliance with various corporate laws and regulations in order to protect the interests of the stakeholders more particularly shareholders and creditors.

6.1.2 Management Team

Mr. Rashid I. Malik, Commissioner oversees CLD. He is a Chartered Accountant from England & Wales and a fellow member of the Institute of Chartered Accountants of Pakistan. He also holds a Master's Degree in Economics. He possesses over 30 years of professional and working experience of business operation, management, finance and accounting in Pakistan and U.K. Mr. Nazir Ahmed Shaheen and Mr. Tahir Mahmood, Executive Directors, head RD and EnfD respectively. Both are Fellow Members of Cost and Management Accountants of Pakistan and possess intense working experience in the field of administration of Company Law in Pakistan.

6.2 Registration Department

6.2.1 Corporate Portfolio

Total number of registered companies at the end of FY 2007 stood at 51,327 as compared to 50,401 at the end of FY 2006, showing an increase of 2 percent. During FY 2007 a total of 4,703 new companies were registered while 3,777 companies were dissolved.

COMPANY LAW DIVISION



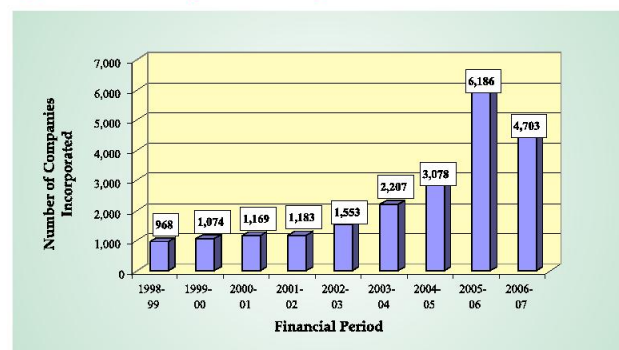
Officers of RD in a Meeting with ED Mr. Nazir Ahmed Shaheen

6.2.2 Corporate Growth

6.2.2.1 Year-wise Growth

Year-wise incorporation of companies since 1998-99 is reflected below:

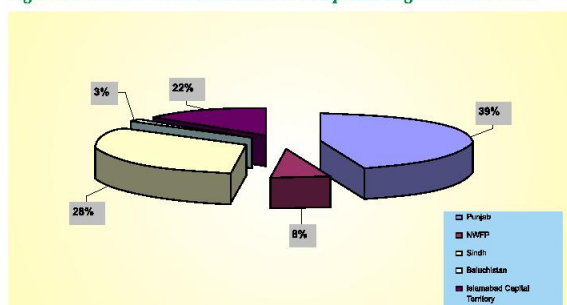
Figure 1: Year-wise Incorporation of Companies



6.2.2.2 Province-wise Distribution of Companies

Geographical spread of companies registered during the FY 2007 is given below:

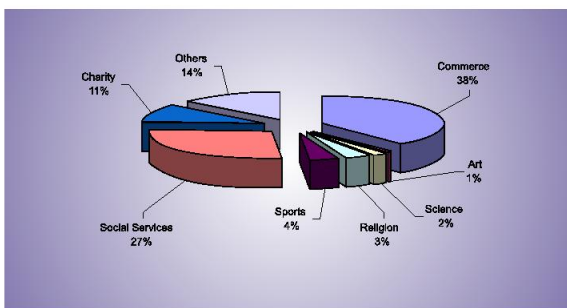
Figure 2: Province-wise Distribution of Companies Registered in FY 2007



6.2.2.3 Associations Not-for-Profit under Section 42

Presently, there are 558 associations Not-for-Profit including trade organizations working in various fields such as commerce, art, literature, science, religion, sports, social services and charity. The distribution is shown in the figure below:

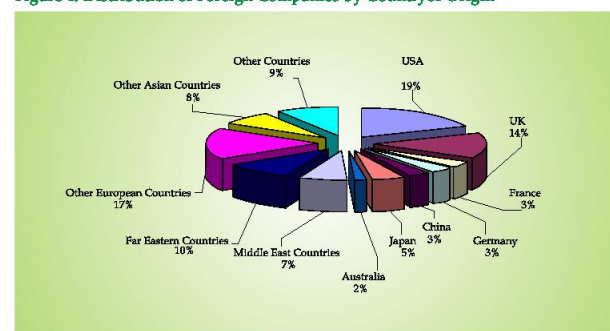
Figure 3: Distribution of Associations Not-for-Profit under Section 42



6.2.2.4 Foreign Companies

Foreign companies that are registered abroad and established a place of business in Pakistan as branch office are playing an important role in the country's economy. At the end of the year, 710 foreign companies were operating in Pakistan. Country-wise origin of foreign companies in Pakistan is shown below:

Figure 4: Distribution of Foreign Companies by Country of Origin



6.2.3 Performance Overview

During the year, RD undertook various measures to promote corporatization, ensure healthy growth of corporate enterprises, enhance public facilitation and encourage regulatory compliance by corporations. Notable measures include the following:

- Abolition of stamp duty on Memorandum and Articles of Association of companies in Sindh and Balochistan. Punjab and NWFP had already granted this exemption.
- Released more guides in its "Guide Booklet Series", as part of corporate awareness programme, entitled "Name Availability Guide" and Licensing of Associations Not for Profit", including publication of translated versions of Promoters' Guide in Chinese and Arabic languages.
- Launching of a media campaign for awareness of public and corporations on various corporate matters.
- Liaison with SMEDA to encourage corporatization of SMEs.
- Effective participation in ITCN Asia 2006 Exhibition.
- Distribution of model Memoranda of Association for the benefit of formation of companies.
- Facilitation in establishment of Joint Investment Companies.

6.2.4 Development of Legal Framework

6.2.4.1 Amendments in the Companies (General Provisions and Forms) Rules, 1985

To give effect of submission of all information/returns electronically by companies, enabling provisions have been incorporated in the Companies (General Provisions and Forms) Rules, 1985. Moreover, Form-29, relating to submission of particulars of directors and officers, including the chief executive, managing agent, secretary, chief accountant, auditors and legal advisers of the companies, or of any change therein, has been revised to make it easier and user friendly.

6.2.4.2 Amendments in the Companies Ordinance, 1984

To protect minority shareholders, remove anomalies in the law, and introduce centralized online system of registration of companies and filing of returns, certain amendments, in consistent with the IT policies of the Government and the Commission's commitment towards development of the corporate sector, were incorporated in the Ordinance through the Finance Act, 2007. These inter alia include:

- Recognition of documents, record, information, communications and transactions in electronic form and to provide their accreditation.
- Removal of bar of registrations of companies and filing of their returns within territorial jurisdiction of their registered offices and access them to make their statutory compliance in any one of eight Company Registration Offices of the Commission.
- Curtailment of the procedural requirements on change of a company's registered office from one province to other province.
- Acceleration of the process of flow of information between the companies and its stakeholders by squeezing the time to hold annual general meeting within three months following the close of company's financial year.
- Requirement for the private limited companies having paid up capital of more than 7.5 million to file copy of their annual audited accounts with the registrar so as to improve their corporate governance behaviour before stakeholders.
- Easement in the process of voluntary winding up by permitting the companies to publish notices in newspapers instead of official Gazette in the event of their winding-up.
- Inclusion of provisions to hold fresh election of directors of a company in the eve of substantial acquirer, acquiring, 12.5% or more, voting shares in a listed company.
- Mandating for listed companies to have an independent share registrar in order to make transparent the process of transfer and transmission of shares of companies.
- Authorizing the Commission to specify the class of companies or undertaking to which the restrictions for investments in its associated undertaking shall not apply subject to such conditions and restrictions on the nature, period, amount of investment and terms and conditions attached thereto.
- Empowering the Commission to order a special audit of the company and to appoint an auditor to carry out detailed scrutiny of the affairs of the company, on its own motion, or upon an application made by members holding not less than 20% voting rights in a company.
- Authorizing the Commission to require submission of additional statements of accounts and reports from the companies.
- Enabling the Commission to make regulations and to issue directives, circulars and guidelines to carry out the purposes of the Ordinance.

6.2.5 Regulatory Actions

6.2.5.1 Amalgamations and Mergers of Companies

During the year, RD submitted oral and written representations in respect of nineteen cases of amalgamation in Courts. Of these, the decision on five cases is pending while decisions in respect of the following cases have been taken by the Courts during the year:

- Zahidjee Fabrics Limited into Zahidjee Textile Mills Limited
- Habib Bank AG Zurich into Habib Metropolitan Bank Limited
- Pakistan Papersack Corporation Limited and Khyber Pass (Pvt.) Limited into Thal Limited
- Sapphire Energy Limited into Sapphire Textile Mills Limited
- GMPL (Pvt.) Limited and Providence Modaraba Limited into BRR Investment Services (Pvt.) Limited
- W&P Company (Pvt.) Limited into Maxco (Pvt.) Limited
- Khas Leather Products (Pvt.) Limited into Khas Foods (Pvt.) Limited
- Atlas Investment Bank Limited into Atlas Bank Limited
- Pharmacia Pakistan (Pvt.) Limited into Parke Davis & Company Limited
- Union Bank Limited into Standard Chartered Bank Pakistan Limited
- Colony Textile Mills Limited and Landsend (Pvt.) Limited into Colony Mills Limited
- First Allied Bank Modaraba into Allied Bank Limited
- Netsol (Pvt.) limited into Netsol Technologies (Pvt.) Limited
- PEL Daewoo Electronics (Pvt.) Limited into Pak Electron Limited

6.2.5.2 Approvals and Permissions

The Companies Ordinance contains a number of provisions that require companies to obtain prior approval of the Commission or the Registrar before taking a particular action. A large number of applications were received during the year and after consideration of the circumstances of each case, necessary approvals were accorded in the cases listed in Table 10.

6.2.5.3 Processing of application for grant of license to Associations Not-for-Profit under section 42

During the year, 45 license were issued to associations not-for-profit. The Commission has further facilitated the incorporation of associations not-for-profit by introducing a step-wise procedure for obtaining of license. Facilitation has also been provided by making available model Memoranda and Articles of Association and specimens of documents to be attached with the application.

6.2.5.3 Capital Issues

• Issue of Shares Other than Right

During the year, three companies applied for permission to issue shares other than rights to the existing shareholders and were accordingly allowed to issue shares worth Rs. 1.5 billion.

• Issue of Preference Shares

During the year, two public unlisted companies applied for approval to issue preference shares to the existing shareholders. Approval was granted in both the cases to issue preference shares amounting to Rs. 99.99 million.

6.2.6 Monitoring and Enforcement

6.2.6.1 Action against Forex, MLM and Pyramid Schemes

During the year, RD identified two companies which were doing unauthorized and illegal businesses of forex/brokerage/MLM/Pyramid schemes and were deceiving general public. Petitions against these companies have been filed in the Lahore High Court.

6.2.6.2 Investigations

During the year, the RD processed six applications for investigation of affairs of the companies alleged to be managed in a manner depriving the members of a reasonable return or committing frauds against creditors.

6.2.6.3 Adjudication of cases under the Ordinance

During the year, the Registrar of Companies and the CROs adjudicated 4,746 cases of violation of various provisions of the Companies Ordinance. In 1,530 cases punitive actions were taken against errant companies.

6.2.6.4 Dissolution of Companies

RD disposed of 3,777 cases of dissolution of companies. Of these, 7 companies were wound up under High Court orders, 39 were wound up voluntarily and 3,731 companies were struck off from the register under section 439 of the Companies Ordinance. The dissolved companies had a paid up capital of Rs. 879.83 million.

6.2.6.5 Redressal of Complaints

During the period, the RD and the CROs received 164 complaints from different stakeholders while 12 complaints were brought forward from previous year. Of these, 161 complaints were disposed off during the year while 15 complaints were in process at the close of the year.

The complaints mainly pertained to issues relating to deprivation of right issue, non-payment of dividend, mismanagement, non-holding of AGM or improper holding of meetings, misappropriation, non-registration of transfer of shares, non-issue of share certificates, non-receipt of notices, improper election of directors and non-receipt of annual accounts.

6.2.6.6 Examination of Annual Accounts of Non-Listed Public Companies and Associations not for Profit

RD carried out examination of annual accounts of 657 non-listed public companies and associations not for profit during the period. Necessary action was undertaken against the errant companies. Show cause notices, warning notices and explanation letters were issued to 330 companies for non-compliance with the statutory requirements, while 327 accounts were found in order.

6.2.6.7 Administrative Appeals

During the year, four appeals against the orders passed by the concerned registrars were made before the Executive Director (Registration) and the Registrar of Companies. All of these appeals were disposed off.

Two appeals were made before the Commissioner (CLD) against the orders of Registrar of Companies and were disposed off. However, one appeal made before the Appellant Bench against the order of Registrar of Companies, was under process at the close of the year.

6.2.7 Developmental Activities

6.2.7.1 eServices Project

Realizing the importance of information technology and the need to introduce electronic governance in its operations, with a view to facilitate the corporate sector and to ease the procedure for submission of returns, the Commission has embarked upon a highly ambitious and practical e-Services Project. Through this project, the Commission is progressing towards the provision of online services to facilitate the general public through the following functions:

- Online availability of name
- Online incorporation of companies
- Online filing of statutory returns

This would be a great achievement not only in provision of online services but also in making it easy to access the records of companies. During the period, modules of the system were developed and mock trials undertaken.

6.2.7.2 ITCN Asia 2006 Exhibition

RD and the IS&T Department jointly participated in the ITCN Asia 2006, held in August 2006. During the exhibition, a fast track Company Incorporation Desk for 'on-the-spot' incorporation of companies was established and the Commission's guideline booklets were distributed among visitors to create awareness. This effort of the Commission was highly appreciated by local and foreign delegates.

6.2.7.3 Publication of Guideline Booklets

Keeping up with the past endeavours to publish guideline booklets to create public awareness on various statutory matters and to help introduce international best practices in corporate governance, the following guideline booklets have further been published and placed on the Commission's web site:

- Translated version of Promoters' Guide in Chinese and Arabic
- Company Name Availability Guide
- Licensing & Registration of Associations Not-for-Profit

6.2.7.4 Placing of Memorandum of Association on SECP's website

RD has developed and placed on the Commission's web site, simplified and standardized model memoranda of association for various sectors of the economy, for the convenience of the promoters of companies and general public. During the year, model memorandum of association of venture capital business was developed and placed on web-site. The Commission has plans to develop and provide such model memoranda and articles of association for all sectors of corporate activity.

Complete list of Memoranda developed by the Commission is available in the Annexure E.

6.2.7.5 Liaison with SMEDA for Corporatization of SMEs

SMEDA, in coordination with the Commission and other organizations, held a seminar titled "Hassle Free Business Environment for SMEs" on May 2, 2007 at Karachi in which the Commission actively participated and extended full cooperation and support to the organizers. A counselling desk was established at the seminar to disseminate information about the initiatives taken by the Commission for promotion of SME sector. Benefits of forming a corporate entity were explained to the visitors.

6.2.7.6 Representation in Corporate Registers Forum (CRF)

The Commission is a Charter Member of the Corporate Registers Forum (CRF), a global association for administrators of corporate and securities registers. Mr. Rashid I. Malik, Commissioner CLD & SMD, represented the Commission in the AGM of CRF, held at Kuala Lumpur and Singapore from 16-20 April, 2007. It was jointly hosted by the Companies Commission of Malaysia (SSM) and the Accounting and Corporate Regulatory Authority, Singapore (ACRA).

One of the activities of the AGM was the election of members for the Executive Committee for the ensuing year. The Commission was elected as one of its members along with five other member jurisdictions i.e., England, Canada, Australia, New-Zealand and South-Africa. Malaysia and Singapore who were hosting the AGM were selected as honorary members.

The focus of the forum remained the evolution of Corporate Registers, challenges and opportunities in response to the dynamics of the business environment and the need to address the challenges and responses in meeting the expectations of the business community.

6.2.7.7 Participation in Finalization of Free Trade Agreements

Pakistan is in the process of finalizing various agreements for expanding trade in services including the following:

- Pakistan Services Order- WTO Agreement
- Pakistan- Singapore Free Trade Agreement
- Pakistan- China Negotiations- Free Trade Agreement
- Pakistan- Malaysia Free Trade Agreement

RD extended full support to the Ministry of Commerce and also gave recommendations on various emerging legal and corporate issues.

6.2.7.8 Establishment of Joint Investment Companies

RD facilitated the establishment of joint investment companies and provided assistance in the pre-incorporation activities of the following companies:

- Pak-Brunei Joint Investment Company Limited incorporated in Nov, 2006
- Pak-Iran Joint Investment Company Limited incorporated in June, 2007

Facilitation was also extended to Pakistan-China Joint Investment Company that got incorporated in July, 2007. Mr. Nazir Ahmed Shaheen, Executive Director, RD, participated in the pre-incorporation activities in Beijing as a member of BOI delegation.

6.2.7.9 Future Plan

- 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 rules namely Associations Not-For-Profit under section 42 of the Ordinance (Licensing and Corporate Governance) Rules, have been drafted which contain the regulatory framework requirements in line with the provisions of the Code of Corporate Governance proposed to be applicable on the associations not-for-profit. Presently the draft is at an advanced stage of consideration.

- Draft Housing and Real Estate Development Companies (Establishment and Monitoring) Regulations, 2007

In order to closely monitor the real estate development sector, RD has drafted "Housing and Real Estate Development Companies (Establishment and Monitoring) Regulations" which lay down comprehensive regulatory framework for registration, post incorporation compliance and legal requirements of companies operating in housing and real estate development sector. Draft regulations have been prepared after taking into consideration the views/comments from renowned legal consultants.

- Draft Public Sector Companies (Corporate Governance) Regulations, 2007

To extend the corporate governance initiative to public sector companies, Public Sector Companies (Corporate Governance) Regulations, 2007 have been drafted in consultation with legal experts. The draft Regulations have been circulated among various divisions of the Commission for obtaining their views/comments.

- Establishment of a Facilitation Centre at CRO Karachi and Islamabad

After the successful completion of a facilitation centre at CRO Lahore, work has been started to set up similar facilitation centres at CROs Karachi and Islamabad to facilitate the general public and the corporate sector. These centres will go a long way in providing an investor friendly environment, promoting awareness and assisting in corporatization of businesses.

- Publication of Guideline booklets

The following guideline booklets are in the process of development:

- a. Frequently asked questions (FAQs) about real estate development companies
- b. Complaint Lodging and Redressal Guide
- c. Company Meetings and Resolutions Guide

- Off the Shelf (Ready made) Company

A new concept of ready-made/ off-the-shelf company is being introduced by the RD. A 'shelf company' would be a previously-incorporated company which would be readily available for instant off-the-shelf purchase without the time spent in setting up.

A detailed concept paper on Off-the-Shelf Company setting out the *modus operandi* and the expected benefits of the idea has been prepared. An awareness campaign was also initiated to get feedback on the concept from various quarters before its approval by the Commission.

- Corporate Universal Identification Number (CUIN)

As part of the e-services project, the existing registration numbers of companies have been replaced with a new Corporate Universal Identification Number (CUIN). The new CUINs will make the e-services processes efficient and improve service delivery to the corporate sector. CUIN will be a 7-digit unique number linked to another 34 digits to capture important data for analysis purpose. The Commission will be able to sort various companies under any of the given fields to get a better assessment of the corporate scene in Pakistan. This will be a comprehensive numbering system which will be implemented shortly.

COMPANY LAW DIVISION

- **Data Refining Exercise**

Data Refining Exercise was started at all CROs to update the data stored in the Company Registration and Compliance System (CRCS), which is the primary database holding corporate information of more than 50000 companies. Through this exercise the corporate data is being checked and updated to ensure its correctness.

- **Scanning and Archiving Project**

Scanning and Archiving Project was launched to improve effectiveness of the operational processes and create a transparent paperless work environment. The project started from CRO Islamabad. The project is now also in progress at CRO Karachi, while file preparation for scanning is underway at CRO of Lahore, Faisalabad and Peshawar.

- **Facilitation Schemes**

Facilitation Schemes of Company Easy Exit Scheme and Companies Regularization Schemes will be re-launched.

- **ISO 9001:2000 certification**

ISO 9001:2000 certification will be obtained for the RD and eight field offices through out Pakistan, in view of their service-oriented role in provision of corporate services. To begin with, certification for RD and CRO Islamabad will be sought.

6.3 Enforcement Department (EnfD)

6.3.1 Performance Review

During the year, EnfD maintained its focus on improving the compliance level of listed corporate sector with the statutory provisions. The regulatory and enforcement actions were aimed at preventing unauthorised inter-corporate financing, irregularities relating to employees' provident fund accounts and non-compliance of other statutory provisions.

EnfD reviewed financial statements to ensure that those were prepared in accordance with the prescribed financial reporting framework. Compliance with corporate laws and International Financial Reporting Standards (IFRS) by listed companies has shown improvement as a result of vigilance and stringent corporate discipline enforced by the Department.



Officers of EnfD in a Meeting with ED Mr. Tahir Mahmood

COMPANY LAW DIVISION

6.3.2 Regulatory Actions

6.3.2.1 Approval for Placement of Quarterly Accounts on Websites of Companies

To make the information available timely and promote virtual presence, the listed companies were allowed/facilitated to place their quarterly accounts on their websites instead of transmitting these by post to the shareholders, subject to an undertaking to supply the copies of the quarterly accounts to the shareholders on demand at their registered addresses, free of cost within one week of such demand.

During the year, 16 companies were given permission, in addition to 196 companies already permitted in previous years, to place their quarterly accounts on their websites instead of circulation by post to the members.

6.3.2.2 Approval for Appointment of Cost Auditors

During the year, sixty applications for appointment of cost auditors were approved under the cost accounting record orders in respect of vegetable ghee and cooking oil, cement and sugar industries.

6.3.2.3 Capital Issues (Listed Companies)

Companies can raise further capital by way of right and/or bonus issues without the approval of the Commission. However if companies want to issue right shares more than once in a year or want to raise their capital without the offer of right shares, they are required to obtain permission from the Commission. During the year, EnfD received 23 applications seeking approval of the Commission for issue of capital. These applications were disposed of as follows:

- **Issue of Shares without Right**

Ten applications were received from companies requesting permission to issue shares other than right to the existing shareholders. Seven companies were allowed to issue shares other than right under Section 86 (1) of the Companies Ordinance. One bank was given approval allowing it to issue 600 million ordinary shares at Rs. 10 each, other than right, to a financial services group with the primary purpose of restructuring. Another company was allowed to issue shares other than right, from time to time against conversion of loan amounting to US\$ 25 million provided by a foreign multi-strategy trading fund. One incomplete application was rejected.

- **Issue of Preference Shares**

During the year, two applications for issue of more than one kind of share capital having different rights and privileges were received from listed companies. Approval was given in one case to issue preference shares to existing shareholders amounting to Rs.700 million. EnfD also granted approval to a Company to issue preference shares, amounting to Rs.302.5 million, otherwise than right, to certain financial institutions and general public.

- **Relaxation of Rules**

During the year, nine applications were received from listed companies for relaxation from the requirements of Companies (Issue of Capital) Rules, 1996. Six of these applications were received from banks for relaxation of the requirements of law to issue right shares within a period of less than twelve months of the previous issue to meet the directions of SBP whereby they were required to increase their paid up capital. Out of the six applications, requirements of the Rules were relaxed in four cases while two were declined being unjustified.

6.3.2.4 Applications for Extension in Time for Holding of Annual General Meeting (AGM)

During the period, 19 listed companies applied for extension in time for holding of AGMs, out of which 16 companies were allowed extension whereas three applications were rejected for different reasons.

6.3.2.5 Approval for Holding of AGM at Places other than the Registered Office

During the year, three companies applied for approval for holding of AGMs in towns other than those where their registered offices were situated to which approvals were accorded having regard to justification provided.

6.3.2.6 Approval for Loans to Directors

During the year, two applications for approval of the grant of loans to directors of the companies for the purpose of purchase and construction of houses were dealt with. Both applications were approved.

6.3.2.7 Approval for Grant of Exemption from Attaching of Consolidated Financial Statements

During the year, four companies submitted applications for grant of exemption from attaching consolidated financial statements. Approvals were accorded as the requests were justified.

6.3.2.8 Monitoring and Enforcement Actions

During the year, the financial statements of the listed companies were examined and 122 companies were asked to provide explanations with regard to various observations made during the review and cognizance of the default was taken on different issues.

6.3.2.9 Investigations into the Affairs of Companies

During the year, two cases of investigation were dealt with on account of dismal performance and unsatisfactory state of affairs of the company and on apprehensions that members were being deprived of reasonable returns. Proceedings against both the companies were being finalized at the end of the period.

6.3.2.10 Actions Against Auditors

Examination of accounts revealed that in certain cases auditors failed to discharge their duties and responsibilities in as much as the reports issued by the auditors failed to bring out material facts about the affairs of companies or they expressed unqualified or inappropriate opinion.

During the period, fourteen cases of such default were detected. An aggregate fine of Rs.250,000 was imposed on partners of three firms who failed to discharge their duties and responsibilities in a professional manner. Further, proceedings initiated against partners of five firms of auditors were dropped on submission of satisfactory explanation while proceedings in six cases were in process of finalization.

6.3.2.11 Surplus Arising out of Revaluation of Fixed Assets

During the period, proceedings against two companies were initiated for failure to transfer an amount equal to incremental depreciation from Surplus on Revaluation of Fixed Assets Account to un-appropriated profit / accumulated loss through statement of changes in equity, to record realization of surplus to the extent of the incremental depreciation charge for the period. In one case a fine Rs.10,000 was imposed on the chief executive of the company and other directors were reprimanded to be careful in future. Proceedings in the other case were being finalized at the end of the period.

6.3.2.12 Irregularities in Provident Fund

During the year, the chief executive of a company was fined for failure to pay overdue amount to provident fund and was directed to settle the entire outstanding amount including the interest accrued. Proceedings initiated against another company were dropped on submission of satisfactory explanation while proceedings in third case were in process.

6.3.2.13 Irregularities in Utilization of Amount of Security Deposits Received from Dealers

During the period, five cases of irregularities in utilization of amount of security deposits received from dealers were detected. Proceedings initiated against four companies were dropped on submission of satisfactory explanations while proceedings against fifth company were being finalized at the end of the period.

6.3.2.14 Inter-corporate Financing

During the period, 12 cases of violation of law were noticed where listed companies made advances and investments in associated concerns without the required approval of the shareholders. A penalty of Rs.1,000,000 was imposed on directors of three companies with warning to be careful in future. Proceedings initiated against five companies were dropped with warning while proceedings in four cases were in process of finalization.

6.3.2.15 Lease out of Project without Shareholders' Approval

During the period, four cases of violation of law on this account were detected. A penalty of Rs.130,000 was imposed on directors of two companies with direction to be careful and vigilant in future in compliance with the requirements of law in letter and spirit. Proceedings initiated against a company were dropped on submission of satisfactory explanation and assurance to comply with requirement of law in future. However, proceedings against another company which disposed of assets without authorization of the shareholders were in process of finalization.

6.3.2.16 Making of False/Incorrect Statements in Documents

During the period under review, ten cases of misstatement were dealt with and disposed of as below:

- Three cases were detected wherein companies failed to provide material information and made misstatements in the material circulated to shareholders at the time of approval of right issues and utilized the proceeds of right issues otherwise than the purpose described earlier. An aggregate penalty of Rs.554,000 was imposed on the directors of two companies while proceedings initiated against a company were withdrawn with direction to make good the default by buying back 1,824,173 right shares @ Rs.21.95 per share from shareholders of the company.
- Proceedings were initiated against a company for misstatement and not providing information about SBP's conditions, which was a prior event, while seeking the Commission's approval to issue 115 million ordinary shares otherwise than rights to Pakistan Cement Holding Company Ltd. In view of revival of the dormant project and to encourage foreign investment, the default was condoned with warning to comply with the requirements of law in its true spirit in future.

COMPANY LAW DIVISION

- Proceedings initiated against the auditors of a company who issued two certificates on the same date showing contradictory position of the paid up capital of a company. The submission made by the auditors in writing and at the time of hearing was considered and it was observed that the lapse did not appear intentional and no benefit seemed to have been derived by the auditors or by the company due to issuance of two certificates. The auditors upon realizing the mistake issued a revised certificate in regards to the capital of the company before approval of the prospectus by the Karachi Stock Exchange and the Commission. The default was, therefore, condoned with warning to the auditors to be vigilant and perform their duties and obligations with extreme care in future.
- A penalty of Rs.790,000 was imposed on directors of a company for publication and presentation of accounts for the year ended June 30, 2001, 2002 and 2003 in the AGM without signing of report by the auditors of the company.
- Directors Report of a company did not contain information and explanation regarding reservations contained in the Auditors' Report, although that was required under the provisions of law. Proceedings initiated against it were dropped as the company complied with the requirements of law subsequently.
- Proceedings initiated against a company for misstatement in the prospectus regarding time schedule of proforma invoices were in process of finalization at the end of the year.
- A company had utilized the funds raised by issue of right shares in a manner which involved disregard of the commitment made at the time of approval. Proceedings initiated against it in the past were closed with direction to directors to make good the default by making payment of entire amount of Rs.260 million to the company.

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

During the year, two cases of default for non-circulation of abstract on increase in Chief Executive's remuneration in the Directors' Report were dealt with. After due process penalty of Rs. 5,000 was imposed on company secretary of one company whereas proceedings in the other case were dropped on submission of satisfactory explanation.

6.3.2.18 Disclosure of Information in Case of Special Business

During the period under review, 120 notices disclosing information of special business were examined and information disclosed was observed to be deficient in some of the cases. Following actions were taken in cases which were found deficient in disclosure:

- Thirty two companies were directed to circulate un-disclosed information to the shareholders by way of "Addendum".
- Four companies were directed to disclose material information pointed out by the Commission at the time of meeting of the company.
- One company which intended to pass resolution for short term loans and advances to its associated undertakings out of surplus funds available with it was directed to follow provisions of Section 195 of the Ordinance.
- One company was directed to send statement of material facts to the shareholders before holding of AGM.

COMPANY LAW DIVISION

- One company was directed to comply with provisions of Section 208 of the Companies Ordinance, 1984 and provisions of Listed Companies (Substantial Acquisition of Voting Shares and Take Over) Ordinance, 2002.
- Proceedings against seven companies were initiated under Section 160 of the Ordinance. A penalty of Rs. 65,000 was imposed on the chief executive of two companies for non-transmission of notice of annual general meeting and annual accounts to the Commission and other directors of the company were reprimanded to be careful in future. Proceedings initiated against two other companies which failed to disclose and annex statement of material facts with the notice of AGMs were dropped with warnings on submission of satisfactory explanation and assurance to comply with the law in future. However, proceedings against four companies were in process of finalization at the end of the year.

6.3.2.19 Circulation of Quarterly Accounts

A total of 1581 quarterly accounts of listed companies were due to be filed during the period under review. As many as 1341 such accounts were filed exhibiting 85 percent compliance rate.

During the period, 58 cases of non/late filing of quarterly accounts were detected. An aggregate penalty of Rs. 3,514,000 was imposed on directors of fourteen companies. Proceedings initiated against twenty four companies were dropped with warning on submission of satisfactory explanations. However, proceedings against two companies were in process of finalization.

6.3.2.20 Holding of Annual General Meetings

EnfD undertook strict monitoring to ensure that listed companies hold AGMs within the prescribed period of time. Out of 529 companies monitored by EnfD during the year, 465 companies held their AGMs in time.

During the year, seventeen cases of non/late holding of AGMs were detected. An aggregate penalty of Rs. 1,935,000 was imposed on directors of ten companies which failed to hold their AGMs while proceedings initiated against four companies for late holding of AGM were dropped with warning on satisfactory explanation. However, proceedings against three companies were in process.

6.3.2.21 Direction for Holding of Annual General Meeting

During the period, eight companies were given directions by the Commission to hold overdue annual general meetings.

6.3.2.22 Calling of AGM of a Company by the Commission

During the year, the Commission convened the overdue AGMs of a company which had failed to hold the meetings for the years 2004 and 2005. The agenda of the meetings included elections of director's along with the approval of annual accounts for the years 2004 and 2005. The Commission in the interest of the shareholders and as per the direction of Honourable Lahore High Court called the AGMs.

6.3.2.23 Penalty for Default in Complying with the Directions of the Commission for Holding the Meeting

During the period, proceedings against two companies were initiated for non-compliance with the directions given under Section 170 of the Companies Ordinance for holding of overdue AGMs. The proceedings were in process at the close of the year.

6.3.2.24 Non-holding of Election of Directors With-in Prescribed Period

During the period, four cases of default for non-holding of election of directors within prescribed period were dealt with. A penalty of Rs.10,000 was imposed on one director of a company for failure to hold election of directors within the prescribed period while other directors were advised to remain careful in ensuring compliance with mandatory requirements of the statute. In two other cases, proceedings were dropped with warnings in view of satisfactory explanation submitted by both the companies. However, proceedings initiated against a company were in progress at the end of the period.

6.3.2.25 Punishment for Non-Compliance with Directives of the Commission

During the period under review, six cases of non-compliance with directives of the Commission were dealt with. Proceedings were initiated against the companies for non-compliance with the directions given. In one case, the Commission called the AGM, the proceedings initiated were dropped in another case on submission of satisfactory explanation while the proceedings were in progress against four companies.

6.3.2.26 Enforcing Compliance with Provisions of Ordinance

During the year, EnFD, after observing different defaults, issued directions to make good the defaults by complying with the requirements of law. The defaults included among others non-preparation of annual accounts in accordance with the accounting framework, not addressing the observations of auditors, directors' report not containing the full information and explanation with regard to observations of auditors, not clarifying entitlement of fractional shares and failure to provide material information to the shareholders in AGMs.

6.3.2.27 Consolidated Financial Statements

During the period, proceedings were initiated against a company for failure to attach consolidated financial statements as required under the law. A fine of Rs.40,000 was imposed on the chief executive of the said company and other directors were reprimanded to be careful in future.

6.3.2.28 Payment of Interim Dividend in Absence of Profit

During the period, two companies had declared interim dividend out of profit after tax based on quarterly accounts but their annual accounts revealed losses for the year. Proceedings initiated against both the companies were in process of finalization.

6.3.2.29 Issue of Bonus Shares by Listed Companies

During the period, proceedings were initiated against a company for failure to comply with the requirements of the Companies (Issue of Capital) Rules, 1996 for issue of bonus shares and the same was in process of finalization.

6.3.2.30 Issue of Right Shares by Listed Company

During the period, proceedings were initiated against two companies for failure to comply with provisions of the Companies (Issue of Capital) Rules, 1996 for issue of right shares and the same were in process of finalization.

6.3.2.31 Late Submission of Applications for Appointment of Cost Auditor and Cost Audit Reports

During the year, proceedings against four companies were initiated for failure to comply with the provisions of the Companies (Audit of Cost Accounts) Rules, 1998. Considering the submission of the companies, defaults were condoned with warnings to directors of the companies to be careful in future and discharge their responsibilities as per the statute.

6.3.2.32 Winding up of Companies

During the period, six cases 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 defaulted in holding two consecutive AGMs or had suspended business for more than one year were dealt with. In one case, the concerned registrar was authorized to file a petition in the Hon'ble High Court for winding up of the company. In the other case, proceedings in the matter were closed on receiving copy of the Hon'ble Lahore High Court's order for winding up the company on petition of a creditor. However, proceedings in four cases were in progress.

6.3.2.33 Investors' Grievances

During the period, EnFD resolved 982 complaints out of 1004, whereas comments on remaining 22 complaints were sought from the concerned companies. The complaints were mainly related to non-receipt of dividend warrants, non-encashment of dividend warrants, delay/non-transfer of shares and issue of duplicate shares, non-receipt of annual and interim accounts, wrongful deduction of Zakat, non-holding of AGM, non-circulation of notice of meeting, etc.

6.3.2.34 Administrative appeals

During the year, a number of orders were passed imposing penalties for violations of different mandatory provisions of law and issuing directions to make good the defaults committed by the listed companies. Seventeen appeals were filed against the orders of ED/Directors of EnFD. Out of these, the Appellate Bench upheld three orders passed by the Director and ED under sections 158 and 171 of the Companies Ordinance respectively. In one case, the Appellate Bench while upholding the order passed by the ED for appointment of a CA firm as inspector of a company to conduct investigation of the company, directed to appoint one of the officers of EnFD to investigate the issues identified by the ED and on receipt of the Inspector's report, a decision would be made regarding further action as may be required. However, thirteen appeals have yet to be adjudicated by the Appellate Bench.

6.3.2.35 Judicial appeals

During the year, two appeals were filed in the Hon'ble High Court of Lahore by a company. One appeal was filed against the order passed by the Appellate Bench of the Commission on its three revision petitions. The Appellate Bench upheld the penalties imposed by the Director EnFD and the ED on directors of the company for failure to hold two consecutive AGM of the company and non-compliance with the direction of the Commission to hold its overdue AGM. The Appellate Bench also directed the company to hold both the AGM and the election of directors without delay. The company filed another appeal in the Court against calling of overdue AGM of the company by the Commission itself exercising its power in the best interest of the stakeholders as the company failed to comply with the direction of the Appellate Bench with regard to holding of overdue AGM. The Hon'ble Lahore High Court, Lahore in its order dated January 19, 2007, has set aside the Commercial Appeal No. 1/2007 of the Company for stay order against the Commission's direction to hold the AGM. The Hon'ble Court directed that the AGM be held as envisaged by the Commission. The AGM of the Company was held on January 25, 2007 as determined by the Commission and election of directors was also conducted. The Hon'ble Court has directed the Commission to dispose of the matter relating to the takeover laws, which is sub-judice before the Hon'ble High Court.

6.3.2.36 Development Activities

The Commission, considering the importance of the credit rating information for overall health of the financial system and also to safeguard the interest of prospective investors, depositors and creditors, directed all listed companies to disclose the name of credit rating agency and exact rating instead of rating band or category only. It was also directed that all the credit ratings shall be disclosed with the name of credit rating agencies, if more than one credit rating was obtained, instead of publishing the higher rating.

6.3.2.37 Fraud Investigation Unit (FIU)

The Commission is committed to improving governance in the listed companies and has shown its resolve to bring in transparency in the affairs of the listed companies by setting up a Fraud Investigation Unit (FIU). The unit aims to develop strong fraud detection and investigation structure which creates deterrence and investigates cases of serious fraud. FIU is conducting multi-directional investigations under different laws and regulations administered by various divisions of the Commission.

Working strategy envisaged for FIU fundamentally comprises of Intelligence led investigations, through diversified investigation teams comprising of experts in their specialized areas, extensive research and capacity building on forensic investigations, framing of new and effective laws and strategic partnership with other regulators, both local and international, law enforcing agencies and institutions.

During the year, FIU concluded a number of investigations involving three listed companies thereby unearthing a wide range of frauds involving violations of corporate laws. Main violations identified were misrepresentation in financial statements, including non-recording of revenues & sales, breaching statutory and fiduciary duties by the directors of listed companies, unlawful appointment of managing agent, insider trading, designing and effecting fraudulent acts, misleading audit reports by statutory & cost auditors, failures of stock brokers to carry out appropriate due diligence and failure of investment bankers to comply with their statutory obligations.

In one case, FIU after conducting investigation found out that the directors of Ahmed Spinning Mills Limited (ASML) disposed off ASML's investment in shares of M/s United Sugar Mills Limited (USML) to Clearshore at a price of Rs. 16 per share. Subsequently, the personal holding of ASML's directors and Clearshore's holding in USML were sold off along with management control, at a price of Rs. 333 per share, thus depriving ASML's shareholders of their rightful share of Rs. 213.425 million. The Commission imposed an aggregate penalty of Rs. 10 million on M/s Clearshore, its directors and directors of ASML for violation of the Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Ordinance, 2002. The Commission also restrained M/s Clearshore and the directors of ASML from receiving the balance consideration of the sale and directed that the amount be held in trust.

In another case, FIU investigated complaint against M/S Hala Enterprises Limited for disposing off a piece of land for satisfying bank liabilities of an associated private limited company. The sale of land, sale proceeds and receivable from associated company were not recorded in the books of the company to conceal the transaction. Thus the financial statements placed before the shareholders contained misstatement.

6.3.4 Future Plans

EnfD aims to pursue its next generation of reforms. The landscape is broad, but the following are identified as the key areas of reform, work on which is part of the Future Work Plan for 2007-08:

- **Strengthening of Code of Corporate Governance (CCG)**

Compliance with the CCG is monitored by the EnfD. It is proposed that its compliance must be made mandatory over time as the CCG is largely there for voluntary compliance.

- **Strengthening the Fraud Investigation Unit (FIU)**

The FIU was established as a high priority agenda item for the Commission and this unit mainly targets the prevention and detection of white-collar financial crimes. Identification of such crimes is largely a function of the EnfD, 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 next generation reform area for the EnfD.

- **Improve Vigilance on Auditors**

In order to ensure that auditors of listed companies perform their duties diligently and discharge their responsibilities effectively under the statute, a database of audit firms will be developed and used as a navigation tool to improve the performance of the auditors and establish effective enforcement of laws and accounting standards.

- **Databases**

The availability of both financial and non-financial information database is vital for tracking the performance and effectively monitoring the companies over the years. A repository of historical financial and non-financial data will be developed containing relevant and reliable information that assists in effective application of analytical techniques.

- **Intelligence led enforcement**

To deter against the increasing trend of corporate fraud, EnfD intends to play a proactive role in developing procedures to prevent and detect frauds in a timely manner. Financial analysis of the companies will be conducted to identify and detect fraud or fraud risk.

- **Educating employees of companies**

In-house awareness/training will be conducted for management of the companies, particularly directors, CEOs, CFOs and company secretaries, to increase corporate awareness and improve corporate governance by effectively utilizing the facilities available at the Pakistan Institute of Corporate Governance.

- **In-house Investigation**

Capacity of the officers of the Commission would be built for independent and result oriented investigation of corporate affairs. The inspection of records of listed companies will be carried out to improve compliance and to take up limited scope investigations under Section 231 of the Companies Ordinance.

Chapter 7

Securities Market Division

| | |
|---|----|
| Capital Market Overview | 66 |
| Performance Review | 68 |
| Development of Laws & Regulations | 68 |
| Development of New Products | 70 |
| Regulatory Actions | 72 |
| Registration of Brokers & Agents | 76 |
| Monitoring and Enforcement | 78 |
| Developmental Activities | 81 |
| Future Plans | 84 |

Securities Market Division

OBJECTIVE: To develop and promote a fair and modern capital market in Pakistan, protect investors through an efficiently regulated market and facilitate capital formation.

7.1 Operational Structure

7.1.1 Structure

Securities Market Division (SMD) plays a fundamental role in maintaining the integrity and vitality of the markets and protecting the interests of investors. It strives to strengthen the integrity and soundness of the securities markets for the benefit of investors and other market participants and to conduct its work in a manner that is as sophisticated, flexible, and dynamic as the securities markets it regulates.

SMD is entrusted with the tasks of instituting appropriate regulatory framework 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 enhance investor confidence. It is responsible for regulation of all aspects of the capital market including licensing and coordination.

SMD regulates the primary and secondary market activities as well as market intermediaries. The scope of activities encompasses 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
- Monitoring and Surveillance and Beneficial Ownership
- Capital Issues
- Commodity Exchange
- Brokers Registration and Inspection
- Investor Complaints

7.1.2 Management Team

Mr. Rashid I. Malik, Commissioner, oversees SMD. He is a Chartered Accountant by profession. He also holds a Master's Degree in Economics and possesses over thirty years of professional experience in business operation, management, finance and accounting in Pakistan and U.K.

To expand its outreach to the stakeholders and regulatees in the southern region, the Commission established a regional office in Karachi and Mr. Zafar Abdullah, a Chartered Accountant by profession, joined the Commission in December 2006, as Executive Director (SMD-South). Mr. Imtiaz Haider, Executive Director, was head of SMDNorth. Both the Executive Directors were assisted by a number of professionals including lawyers, chartered accountants, financial analysts, management accountants and business graduates.

Mr. Imtiaz Haider left the Commission subsequent to the close of the year.

SECURITIES MARKET DIVISION



Departmental/Wing Heads of SMD

7.2 Capital Market Overview

During FY2007, the Karachi Stock Exchange 100 Shares Index (KSE-100 index) increased by 38 percent and closed at 13,772 on 29 June 2007 which was the highest through out the year. Market capitalization of the KSE surged to Rs.4,019.42 billion (US\$ 66.33 billion), an increase of 43 percent over FY2006 market capitalization of Rs.2,801.18 billion (US\$ 46.69 billion).

For KSE performance at a glance see Table 11 in statistical section. A graphical presentation is given below:

Figure 6: KSE-100 Index Daily Turnover at KSE (July 2006-June 2007)

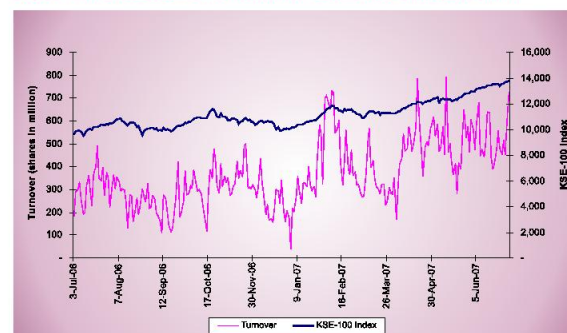


Figure 7: KSE Market Capitalization and Daily Traded Value (July 2006-June 2007)

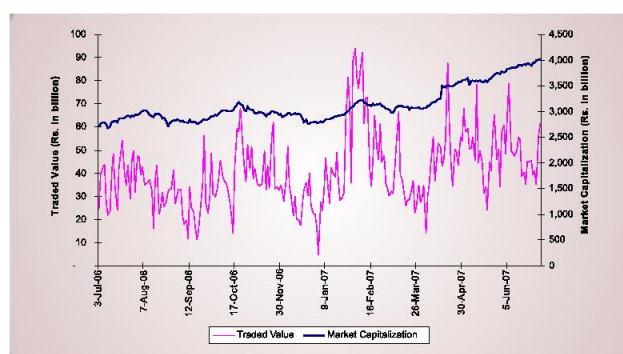
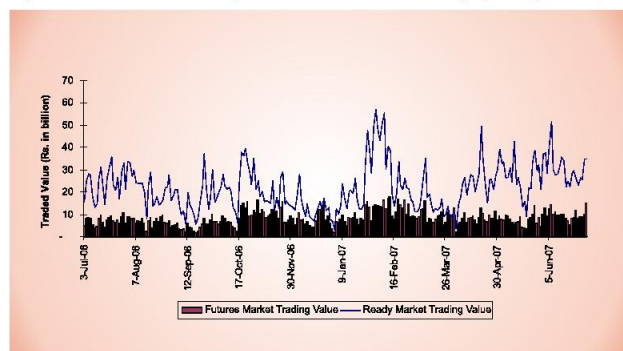


Figure 8: Traded Value in Ready and Futures Markets at KSE (July 2006-June 2007)



7.3 Performance Review

Through a variety of rule making and other initiatives, SMD continued to modernize and refine its administered regulations in order to facilitate innovation and competition while protecting the interests of investors.

SMD actively pursued its goals to increase investor confidence, proactively undertake market reform initiatives and further strengthened the risk management framework by implementation of sustainable risk management measures aimed at minimizing systemic risks. SMD's initiatives and reforms contributed towards a high level of integrity and transparency in terms of price discovery and trade settlement, which was mirrored in the extraordinary growth of the capital market in the country.

On December 04, 2006, SMD implemented a new risk management regime based on international best practices, which had over the time become ineffective and stale. New risk management methodology was implemented in a phased manner, to minimize the chances of negative effects on the market which might have developed in consequence of a sudden change.

SMD, in consultation with market participants, took major strides towards removing various impediments in the development of Continuous Funding System (CFS) Mk II, a product aimed at replacing the existing CFS product. CFS Mk II, will be an independent market funding product run on the platform of National Clearing Company.

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 pursuance of the Commission's objective to increase market transparency and improve its surveillance capacity, Universal (Client) Identification Number (UIN) System at the stock exchanges was implemented with effect from August 01, 2006. The system was further refined from time to time through out the year, based on feedback of the end-users. In order to maintain the authenticity of the UIN database, a database cleansing exercise was also undertaken by NCCPL.

7.4 Development of Laws and Regulations

7.4.1 Amendments in National Clearing and Settlement System (NCSS) Regulations

On September 27, 2006, the Commission approved amendments in the NCSS regulations relating to UIN to further elaborate the existing working functionality of UIN. More amendments were made in NCSS regulations based on operational feedback received from market participant. Moreover, introduction of cash-settled future contract necessitated amendments in NCSS regulations. Thus clearing mechanism was modified to allow settlement of daily mark-to-market profits and losses. With the launch of Unified Trading System, certain changes were required in the IDS module being employed by NCCPL; accordingly amendments in NCSS regulations to this effect were approved by the Commission during the year.

7.4.2 Unified Trading System Regulations

The Commission on April 9, 2007 approved Unified Trading System (UTS) Regulations of Lahore Stock Exchange (G) Limited and Islamabad Stock Exchange (G) Limited. The introduction of a unified trading platform will enable the exchanges to expand their trading activities and enter into a new era which envisages increased trading volumes, better price discovery, and a better quality of trade execution for the investors. As the UTS employs state-of-the-art technology, the stock exchanges will be able to provide a modern, efficient trading infrastructure for the execution of investors' orders, for effective monitoring and surveillance, promoting and protecting investors' interest and increasing the transparency and efficiency of the transactions. The introduction of this trading facility would help reduce fragmentation of our local markets and facilitate the introduction of new diverse products to cater to various needs of the investors, leading to a progressive deepening of our markets.

7.4.3 Amendments in Listing Regulations of the Stock Exchanges

In February 2007 the Commission approved amendments in the Listing Regulations of the Stock Exchanges for the purpose of inclusion of a list of services that an auditor of a listed company cannot provide. This would effectively prevent situations of conflict of interest.

7.4.4 Amendments in the General Regulations of the Stock Exchanges

- **Arbitration Procedure:** To further streamline the arbitration procedure at the stock exchanges' level, the Commission on March 19, 2007 approved amendments in the General Regulations of the Karachi Stock Exchange (KSE) Limited. To avoid any possible conflict of interest during the arbitration proceedings these Regulations provide for the constitution of a Panel of Experts consisting of non-member arbitrators having knowledge/ experience in the field of law, trade, commerce, industry, arbitration, securities market and/or fields ancillary to the stock market.
- **Segregation of Client's Assets from Broker's Assets:** In order to provide for segregation of client's cash assets in line with international best practices and to ensure that client's assets are not misused, the Commission on September 1, 2006 approved amendments in the Exchanges' General Regulations. These Regulations require broker to maintain a separate bank account for his client's cash assets and ensure that margin deposited in form of securities is maintained in a separate sub-account or investor account.
- **Manner of Confirmation of Orders of Investors by the Brokers:** For the purposes of bringing the General Regulations of the stock exchanges in line with the provisions of the Securities and Exchange Rules, 1971 dealing with the manner of confirmation of trade orders of investor by broker, the SECP on May 25, 2007 and September 28, 2007 approved amendments in the General Regulations of KSE and LSE respectively. (This will assist enhancing transparency and reducing disputes between brokers and clients).

7.4.5 Regulations Governing Members' Office(s)/ Branch office(s) for Conducting the Business and Trading of Shares & Securities Within/ Outside Exchange Building

In order to ensure increased investor protection and promote equity investment in the country, it was considered essential to introduce regulations governing "Members' Office(s)/Branch office(s) for Conducting the Business and Trading of Shares & Securities Within/Outside the Stock Exchange Building". The Regulations were approved by Commission for both LSE and KSE on April 10, 2007 and June 11, 2007 respectively. Whereas these regulations had already been approved for the LSE earlier.

7.4.6 Regulations governing Deliverable Futures Contracts

On August 01, 2007 the Commission approved amendments in Regulations Governing Deliverable Futures Contracts of the Karachi Stock Exchange thereby restricting sales position in excess of 0.25 % of the free float of any scrip unless there is a pre-existing interest of the investor on a UIN basis. This has been implemented with the purposes of improving and further strengthening the prevalent risk management mechanism.

7.4.7 Continuous Funding System Regulations, 2006

On October 9, 2006, the Commission approved Continuous Funding System Regulations 2006 thereby repealing the earlier Continuous Funding System Regulations 2005. The new Regulations comprehensively cover various areas/operations of the CFS market including segregation of CFS and Ready markets, netting regime for exposure purposes, linking of CFS premium rates to a minimum percentage of KIBOR, imposition of a condition that CFS securities shall be held in CDC blocked CFS Account, allowing broker CFS financier to pledge proprietary CFS financed scrips as deposit against exposure upon payment of margins, etc.

7.4.8 Amendments in Karachi Automated Trading System Regulations

On October 16, 2006, the Commission approved amendments in the Karachi Automated Trading System Regulations (KATS) incorporating necessary provisions in relation to the introduction of Unique Identification Number (UIN) at the exchanges w.e.f August 1, 2006. UIN is expected to significantly enhance risk management at the client level thereby bringing in more transparency and improving surveillance and monitoring capacity of the stock exchanges as well as the Commission.

7.4.9 Regulations Governing Cash Settled Futures Contract (CSF Contracts)

In order to provide the investors with diversified trading instruments and to bring-in more derivative products, the Commission had been working on the introduction of standardized Cash-Settled Futures (CSF) Contract in line with international best practices. Accordingly, on February 21, 2007 and May 17, 2007 the Commission approved Regulations governing CSF Contract for the KSE and LSE respectively.

7.5 Development of New Products

7.5.1 CFS Mk II

In order to facilitate transparent and efficient financing for the market, the Commission proposed authorization of direct leverage finance in form of CFS Mk II by eligible brokers, banks and non-banking financial institutions. Further, with the purposes of providing a level playing field for the Lahore and Islamabad markets, centralized CFS Mk II is being developed by NCCPL in collaboration with the KSE.

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 NCSS platform. Moreover, a steady and assured source of liquidity at competitive rates would be available to all market players causing overall market activity to increase.

The Commission, in June 2006, constituted a high powered committee to address matters relating to CFS Mk II and to work out details for its implementation. Subsequently, in January 2007 CFS Mk II Implementation Committee (the Committee) was formed to move from conceptualizing to implementation. The Committee, under the Chairmanship of Mr. Shaukat Tariq and comprising representatives of the three stock exchanges, the SECP, MUFAP, stock brokers and bankers had held various meetings with the stakeholders.

Based on the feedback received from the stakeholders, the Committee further refined the initially proposed mechanism of CFS Mk II, together with threshing out various roadblocks in its eventual implementation during the year under consideration. The Committee has eventually finalized the draft working paper of the said product and currently steps are under way to implement the said product soon.

7.5.2 Cash Settled Futures Contracts (CSF Contracts)

The Commission approved the Regulations Governing CSF Contract for the KSE on February 21, 2007, after which the CSF Market became operational at the exchange from April 2, 2007, initially trading in 3 scrips. CSF Market being a derivatives market provides another avenue of financing for the capital market, increasing the liquidity thereof.

7.5.3 Financial Institutions (FIs) Margining System

During FY-2007, the Commission actively pursued the development of a system of Margining the Financial Institutions (FI) who at present do not tender margins to the Brokers for the trades executed on their behalf. As the quantum of such trading activity is very substantial, it puts an enormous burden on the broker community who are compulsorily obliged to tender margins to the exchange and/or NCCPL for all the trading activities carried out by them on behalf of their clients.

In order to ease the burden of the brokers and to further bind the financial institutions for their trades and provide an efficient and effective base for submission of margins by them, the Commission developed FI Margining System in consultation with the various concerned parties. A committee was established under the chairmanship of Mr. Iqbal Hassan, President, NIB Bank Ltd. and consisting of representatives of the Commission, the three stock exchanges, MUFAF, various brokers and bankers to address issues relating to implementation of FIs Margining System. The Committee finalized the modus operandi for margining system and developed the necessary regulatory framework for its implementation.

The system has been implemented by NCCPL in November 2007 and the salient features thereof are as follows:

- Margins deposited by FI's directly with NCCPL.
- Release of Margins of Brokers once margins deposited by corresponding FI's
- Default management by NCCPL in case of Non Broker Clearing Member
- Risk Management of Non Broker Clearing Member at NCCPL

7.5.4 Free Float Index

KSE-30 Sensitive Index based on free float of scrips was put in place with effect from September 1, 2006. There had been a need to introduce a free float index that is a representative of the market as the capitalization weighted KSE 100 Index was not representative because of over weightage of a few scrips. Free float means proportion of total shares issued by a company that are readily available for trading at the stock exchange. It generally excludes the shares held by controlling directors/sponsors/promoters, government and other locked-in-shares not available for trading. Free-float index gives a much better market representation than indexes constructed on the basis of total market capitalization of the companies.

7.5.5 Unified Trading System (UTS) Platform

After approval of the UTS Regulations of LSE and ISE by the Commission in April 2007, the UTS system went live on April 30, 2007. With the inception of UTS, it is expected that a healthy state of competition would occur and as a result thereof, the securities market of the country particularly both LSE & ISE would progress. One of the advantages of UTS to the members of ISE would be the direct access to a larger market eliminating control issues such as custody of securities, payments, etc. currently being faced while trading through KSE members.

7.5.6 Introduction of T+2

The successful introduction of a shorter Settlement Cycle T+2 and replacement of T+3 with effect from August 6, 2007 at the stock exchanges has brought our market at par with various international jurisdictions and assisted in reducing the overall settlement risk in the market. The reduction in settlement cycle is also beneficial to the brokers as it provides them a relief in their capital adequacy and margining requirements.

7.6 Regulatory Actions

7.6.1 Risk Management

In order to bring the risk management framework in line with international best practices and standards, the Commission took major strides towards implementation of a new Risk Management System (RMS) at the bourses of the country. In line with the procedure followed in other reform measures, the Commission adopted a participative and consultative process while developing the new RMS and detailed sessions/ meetings in this regard were held with the stakeholders including, brokers, management and BoDs of the stock exchanges.

The new RMS, which was implemented in a phased manner, has changed the existing regime in the following areas:

- Netting Regime
- Initial Margining Regime
- Special Margins
- Client-level Netting Regime
- Mark-to-market Losses
- Position Limits
- Valuation of Securities (Haircuts Regime)

7.6.1.1 Netting

A comprehensive market wide netting scheme was introduced through the new RMS whereby depending on the various different types of risks faced by a particular market, different netting regimes were introduced in different markets. Furthermore, previously, netting was allowed across different settlement periods, which has been done away with effective December 4, 2006.

7.6.1.2 Initial Margining Regime

Before December 4, 2006, the margins on members' exposures in Ready/CFS and Futures Market were calculated using "slab-based rates". This slab-based system did not take into account individual volatility and liquidity of shares and thus the margin rates increased only if there was a change of exposures slab. Under the New RMS, initial margins are calculated using VaR-based system. VaR is a state of the art risk management system practiced internationally and takes into account risk associated with each share based on historical data. Initially the VaR-based margins are being applied at concessionary percentages in Ready and CFS Markets, and these percentages are increasing by 1% every week and will reach 100% on November 19, 2007.

7.6.1.3 Special Margins

In order to curb volatility and to mitigate systemic risk in the market, special margins have been introduced. These margins are payable on a daily basis only where the weighted average transaction cost of a scrip in the CFS or Future Deliverable Markets with respect to a client, is different by more than 10%, from 26 weeks moving average price of that scrip in the Ready Market. In the Futures Deliverable Market, special margins are applicable on both long & short positions whereas in the CFS Market special margins apply to long positions only.

7.6.1.4 Client-Level Netting Regime

Client-level Netting (CLN) Regime in all the markets was implemented with effect from the following dates:

- Ready Market: February 1, 2007
- CFS Market: February 1, 2007

SECURITIES MARKET DIVISION

- Deliverables Futures Market: May Contracts (April 23, 2007)
- Cash-settled Futures Market: April Contracts (April 2, 2007)

Under this regime, the exposures are calculated at client level (based on UIN basis) and no netting is allowed between long and short positions of different clients. Exposures calculation on UIN basis means that netting is allowed in the same scrip and same settlement period of a single client under the same broker. In other words, netting of such positions of the same client across brokers is not allowed.

7.6.1.5 Mark-To-Market Losses

Mark-to-market losses are collected 100% in cash in all the markets on a daily basis. Mark-to-market (MTM) profits in CSF Market are distributed on a daily basis, while profits in Deliverables Futures Market are distributed on a weekly basis to the extent of 20% of opening rate of contract. Under Client Level Netting regime, netting of MTM profits and losses in different scrips, in same settlement period of a single client under the same broker are allowed.

7.6.1.6 Position Limits

Market wide, member wide and client wide position limits have been introduced in the market to avoid concentration of positions and to restrain investors from being over leveraged. These limits have been linked with the free float of the scrip and are expected to minimize the possibility of any market abuse.

7.6.1.7 Valuation of Securities (Haircuts Regime)

Significant amount of margins against exposures in all the markets are placed in the form of eligible securities. However, since the realization of securities might be different from their current market values in a default scenario, the values of such securities to be accepted as margins need to be adjusted in a downward direction to account for this risk. The percentage by which the securities are adjusted downwards is called the "haircut".

Previously, the values of eligible scrips were calculated on a criteria based on the company's EPS and a flat-haircut percentage. However, in order to effectively categorize the collateral after December 4, 2006, the haircuts regime has been revised, so as to prescribe haircuts for different scrips based on their liquidity and volatility.

7.6.2 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, Employees Stock Option Schemes, 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.

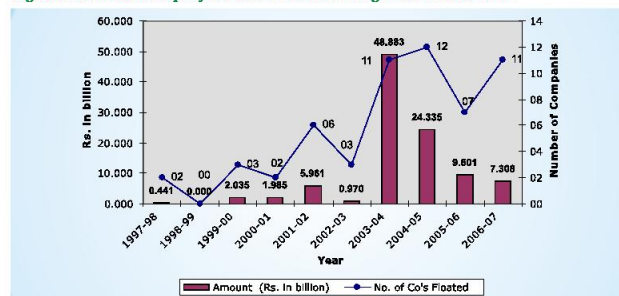
During the year under review, eleven (11) companies issued or offered shares to the public as compared to seven (07) in FY2006. New capital of Rs. 7,308 billion was listed in FY2007 as compared to Rs. 9,601 billion in FY2006. Similarly, nine (09) companies issued debt instruments, i.e. TFCs to the public, as compared to eight (08) in the preceding year. TFCs of Rs 11.650 billion were listed during FY2007 as compared to Rs 10.505 billion in FY2006. For details see Table 12 & 13 in Statistical section.

SECURITIES MARKET DIVISION

7.6.2.1 Share Capital

Of the eleven (11) equity issues during FY2007, seven (07) were fresh through which 149,285 million ordinary shares amounting to Rs. 1722,497 million (inclusive of premium amount of Rs. 229,642 million) were offered to the general public. Of the total seven issues, four (04) were oversubscribed while three (03) were undersubscribed.

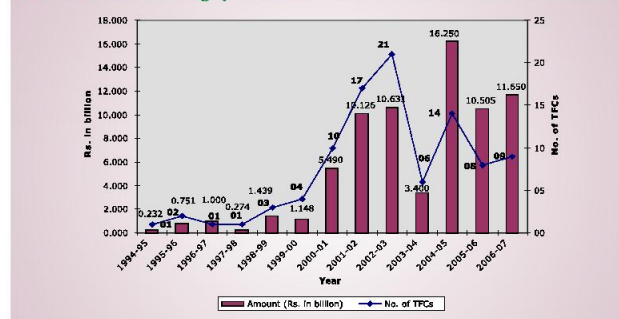
Figure 1: Number of Equity Issues to Public during the FYs 1998-2007



7.6.2.2 Redeemable Capital

During the year, nine (09) companies made public offer of TFCs involving an aggregate amount of Rs. 11,550 billion. An amount of Rs. 11,650 billion (inclusive of green-shoe option) was raised, of which Rs. 7,278 billion was through private placement and Rs. 4,372 billion was from the general public. Of these nine (09) TFC issues, two (02) were undersubscribed. Table 13 summarizes the TFC offerings during the year under review.

TFC Issues Floated During FYs 1996-2007



SECURITIES MARKET DIVISION

7.6.2.3 Section 18-A of the Securities and Exchange Ordinance, 1969

During the year under review, 446 cases containing submission of fictitious and multiple applications in violation of Section 18A of the Securities and Exchange Ordinance, 1969 were reported in 07 different IPOs. Orders in twenty-seven cases were passed and an amount of Rs.540,010/- confiscated in twenty-two cases. Remaining cases are currently under process.

7.6.2.4 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, enforcement actions, under the Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Ordinance, 2002 (Takeover Ordinance) were taken in the cases of substantial acquisition of shares of (i) Mubarak Textile Mills Ltd.; and (ii) Wazir Ali Industries Ltd. and penalties were imposed upon the Acquirers and persons acting in concert. Further, during the FY2007 Public Announcement of offer by various Acquirers under the Takeover Ordinance were made in sixteen (16) cases. The detail of these Public Announcement of Offer are given in Table 14.

7.6.2.5 Investor Awareness

It has been observed during Initial Public Offerings (IPOs) of shares of various companies that individual investors submit fictitious and multiple applications in complete disregard of the provisions of Section 18A of the Securities and Exchange Ordinance 1969. For awareness of the general public, the Commission has initiated a campaign. The purpose of this campaign is to create awareness among the prospective investors that making of fictitious application and submission of more than one application in the name of one person for subscription of shares of companies is strictly prohibited under the law and in case of violation subscription money of such applicants shall be confiscated under Section 18A of the Ordinance. This campaign includes publication of Warning Notices (both in Urdu & English Language) in all the leading newspapers at the time of initial public offering of shares, dissemination of warning notices to the stock exchanges for circulation among all of their members and placement on their websites. The said warning notices are also issued to all the bankers to the issue for placing the same on prominent places in the Bank branches.

7.6.2.6 Issue of Securities outside Pakistan

During the period under review, the Commission allowed three (03) companies to issue & list Global Depository Receipts (GDRs) outside Pakistan under Section 62A of the Companies Ordinance, 1984. Similarly the Commission has allowed two (02) companies to issue foreign currency bonds outside Pakistan under Section 62A of the Companies Ordinance, 1984. The detail of these issues is given below:

| S.No. | Name of Company | Nature of Security | Amount (US \$ in million) |
|-------|--|-----------------------------------|------------------------------|
| 1 | United Bank Limited | Global Depository Shares (GDSs) | 565 |
| 2 | Azgard Nine Limited | Foreign Currency Bonds | 400 |
| 3 | Oil & Gas Development Company Limited | Global Depository Shares (GDSs) | 772 |
| 4 | MCB Bank Limited | Global Depository Receipts (GDRs) | 150 |
| 5 | Pakistan Mobile Communications Limited | Foreign Currency Bonds | 400 |

SECURITIES MARKET DIVISION

7.6.3 Registration of Brokers and Agents

Brokers and Agents are required to be registered with the Commission under the Brokers and Agents Registration Rules 2001.

7.6.3.1 Brokers

At the end of financial year 2007 total number of brokerage houses registered with the Commission stood at 312 as compared to 311 at the end of the last financial year. During the year under review only one new broker was registered with the Commission. However, 81 individual brokerage houses of the stock exchanges converted their status into corporate entities during financial year 2006-2007. Upon conversion from individual to corporate entities, their licenses as broker were converted from individual to corporate. The details of registered brokers and their conversion from individual to corporate entities in tabular form are given as under:

| Details | Corporate Brokers | Individual Brokers | Total Brokers |
|--|-------------------|--------------------|---------------|
| As of 30-06-2006 | 190 | 121 | 311 |
| Change during 2006 -2007 (due to conversion/addition) | 82 | (81) | 1 |
| As of 30-06-2007 | 272 | 40 | 312 |

The details of Stock Exchange-wise categorization of brokers into corporate and individual are as follows: -

| Stock Exchange | Corporate Brokers | Individuals | Total Brokers |
|----------------|-------------------|-------------|---------------|
| KSE | 156 | 14 | 170 |
| LSE | 67 | 23 | 90 |
| ISE | 49 | 3 | 52 |
| Total | 272 | 40 | 312 |

It can be observed that percentage wise KSE had 54% of the total brokers registered with the Commission compared to 29% of LSE followed by 17% of ISE.

7.6.3.2 Agents

The statistics with respect to certificates granted to agents as of June 30, 2007 are presented in the table below.

| Stock Exchange | Number of Agents as on 30.06.2006 | Addition During the Year | Cancellation/Surrender of Registration | Number of Agents as on 30.06.2007 |
|----------------|--------------------------------------|-----------------------------|---|--------------------------------------|
| KSE | 197 | 130 | 52 | 275 |
| LSE | 95 | 69 | 18 | 146 |
| ISE | 15 | 20 | 2 | 33 |
| Total | 307 | 219 | 72 | 454 |

SECURITIES MARKET DIVISION

Compliance with the requirements of the Brokers and Agents Registration Rules, 2001 was ensured and appropriate punitive measures were taken in cases of violations.

7.6.3.3 Enforcement of Section 5A of the Securities and Exchange Ordinance, 1969

The robust performance of the stock exchanges has attracted substantial investment from investors all over Pakistan. As a result, many stock brokers of the exchanges have opened their branches in various cities of the country subsequent to getting themselves registered with the Commission and completing the required formalities to facilitate local investors. However, the Commission received reports/complaints from various sources that some 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 unauthorized entities, a comprehensive campaign was launched during the year 2006 to protect the interest and confidence level of investors and general public.

In this context, a detailed circular dated 6 January 2006 was issued to the stock 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. Member-Brokers were advised to refrain from dealing with such illegal/unauthorized brokerage houses/branches and to 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 cities deemed necessary - warning the general public to refrain from dealing with such elements.

The exchanges were also advised to establish a dedicated help line to disseminate information to the general public about the status of the brokerage houses and their authorized branches and widely publicize this facility in the national media. Karachi being the hub of securities dealing, SECP established its Securities Market Division SMD (South) in Karachi. The SMD through its continued vigilance and quick disposal of investor complaints is closely monitoring the dealers/agents to curb this menace of illegal brokerage houses and restore investor confidence in the capital market. The move against these illegal entities was taken up on priority basis during the year 2007, and as a result of the above steps, the number of complaints received during the year on this account have reduced substantially as compared to the preceding year. During FY 2007, SMD (North) received only 05 complaints as compared to 19 complaints in the year 2006. These 5 complaints were received from the provinces of NWFP and Sindh, while in the year 2006 most of the complaints against illegal brokerage houses/branches were from the province of Punjab.

Since the establishment of SMD (South) in December 2006, complaints pertaining to the KSE are being dealt by SMD (South). During this period 2 cases of illegal brokerage houses were received by SMD (South). Thorough investigation was conducted in all the cases, including undisclosed visits to the business addresses of the entities reported through Company Registration Offices and by SMD officials. The status of the above cases is as under:

| | |
|--|----|
| No of Illegal Brokerage Houses/Branches reported | 07 |
| Final order Issued | 03 |
| Houses/Branches found legal/registered | 03 |
| In process | 01 |

SECURITIES MARKET DIVISION

7.7 Monitoring and Enforcement

7.7.1 Market Monitoring and Surveillance

The Market Monitoring and Surveillance Wing (MSW) is responsible for ensuring that stock exchanges, being front line regulators, adequately carry out their functions of effectively monitoring the market, detecting unfair market practices and ensuring adherence to applicable laws, rules and regulations. In order to meet this objective, the MSW has its own dedicated team of officers which monitors the day to day trading of the stock exchanges and carries out detailed investigations into instances of malpractices identified.

During the period under review, MSW continued its efforts to ensure market fairness and carried out major investigations which include investigation into the stock market crash during 2005, based on the observations of forensic investigation firm Diligence Inc., U.S.A. As a result of this investigation, 70 Brokers were issued Show Cause Notices and appropriate orders were served based on the results of hearings and evidences submitted. MSW has also identified unfair trade practices in the trading of KAPCO shares and CCTL shares and legal proceedings will be initiated in due course.

In order to further strengthen the monitoring function of the MSW, a highly advanced surveillance software with sophisticated tools is being acquired. The MSW has deployed its resources to ensure efficient design and effective implementation of this software.

7.7.2 Investor Complaints

The jurisdiction of the Commission *inter alia*, extends to overall supervision and regulation of the capital markets. Sub-section 6 of Section 20 of the Securities and Exchange Commission of Pakistan Act, 1997 lays responsibility on the Commission to maintain confidence of investors in the Securities Markets by ensuring adequate protection. Whenever, any dispute arises between a client and member of a stock exchange the primary responsibility to redress the grievances of the complainant lies with the respective stock exchanges. The stock exchanges are self-regulatory bodies and disputes between an investor and a broker are resolved in accordance with its Memorandum and Articles of Association read with General Regulations of the respective stock exchanges. The Regulations provide a comprehensive *modus operandi* for resolution of such disputes.

In an effort to ensure investors' protection, the Commission has provided the procedure for complaints handling in a guide book i.e. "the Investor's Guide for Lodging Complaints". The guide is available on the Commission's official web site and the CROs. Investors' Complaints Wing (ICW) works in close coordination with the stock exchanges for the purposes of monitoring and investigating any illegal practices of market intermediaries. It also exercises vigilance over stock exchanges for expeditious and efficient dispute resolution. In case of detection of some lag or delay, the Commission seeks explanation from the stock exchanges and efforts are made to expedite the matter by helping to remove any hindrances. Moreover, a proper track of complaints is kept with the Commission in order to maintain vigilance over the situation. In addition to this, the ICW guides the investors at every step and facilitates the resolution of their grievances. In case of defaulting members, the ICW works diligently in monitoring the default procedures and practices of the stock exchanges in order to provide relief, in minimum possible time, to investors aggrieved by such defaults.

7.7.2.1 Complaints Handled Directly by ICW

Although the General Regulations of the exchanges specify the course of action to be followed in disputes between brokers and investors, the ICW may directly take up the matter, conduct investigations and pass orders in the cases, which fall under violations of sub-section 6(d) & 6(g) Section 20 of the Securities and Exchange Commission of Pakistan Act, 1997. These Sections confer upon the Commission the power to administer laws effectively but with minimum procedural requirements and also authorize the Commission to take whatever action is necessary. Keeping this in view, if the Commission observes some

SECURITIES MARKET DIVISION

apparent breach of laws by the market intermediaries which fall within its regulatory ambit or is in the interest of the investors and Securities Markets, then ICW takes up the matter directly. Further, issues of important nature with *domino effect* scenario requiring urgent action on the part of the Commission and/or issues where the Stock Exchanges are not competent to initiate any action are also taken up in pursuance of Section 20 of the Act.

The statistics of complaints handled by the ICW during the year are given in Table 15.

7.7.3 Inspections

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 compliance with the system audit reports, the Inspection Wing has started analyzing the contents of each System Audit Report of the brokers from the year 2006. During the FY 2007 a total of 54 System Audit Reports were received and analyzed. Out of 54 reports, 15 reports showed full compliance by the brokers and for the remaining, enforcement letters, highlighting the non-compliance areas, were sent to the concerned stock exchanges for taking further action under the Regulations. So far LSE and ISE have taken action against 32 brokers.

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 the complainants/shareholders regarding purchase of shares by the majority shareholders of companies that opt for voluntary de-listing under the Listing Regulations of the exchanges. It is the responsibility of the stock exchanges to ensure compliance of Section 32-A of their Listing Regulations. However, Inspection Wing also reviewed the delisting process and handled any complaint lodged by the company against decisions of the exchanges. During the year under review, eight complaints relating to the buy back of shares/delisting of companies were resolved/handled by this Wing.

During April and June 2006 the stock market of the country repeatedly experienced periods of volatility. In order to investigate any possible instance of market abuse, the Commission conducted a preliminary enquiry into the affairs of a number of member-brokers of the Lahore and Karachi Stock Exchange. Based on findings of the preliminary inquiry, it was decided that the matter needed to be probed further. Therefore, the Commission appointed four leading Chartered Accountant Firms of the country as Inquiry Officers under Section 21 of the Securities and Exchange Ordinance 1969 to inquire into the affairs of different brokers of KSE and LSE. Detailed Terms of Reference (TOR) were given to the Inquiry Officers and they were required to perform "agreed upon procedures" to investigate into affairs of the member-brokers of LSE & KSE.

Most of the Enquiry Reports have been received from the Inquiry Officers and were reviewed/analyzed in detail by the Commission. Subsequently, on the basis of findings of the said inquiry reports, show cause notices were also issued and in number of cases hearings were held. Upon completion of the process of hearings final orders will be issued soon.

7.7.4 Beneficial Ownership

To protect the interests of small shareholders and investors, the provisions of Section 224 of the Companies Ordinance, 1984 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 provisions of the Companies Ordinance, these persons are required to tender the amount of such gain to the Issuer Company and failing that the Commission. For the purpose of detecting cases where tenderable gain has accrued, the returns of beneficial

SECURITIES MARKET DIVISION

ownership, filed in compliance with Section 222 of the Companies Ordinance, are examined. During the period under review the Commission received 2,531 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 the list of its members, in accordance with S.R.O. No. 1014(I)86 dated 12 November 1986 and circular No. 6 of 2001. This facilitates verification of the data provided by beneficial owners.

7.7.4.1 Enforcement Actions

The position of tenderable gain cases as of 30 June 2007 is summarized below:

| Status | No. of Cases |
|---|--------------|
| Order passed under Section 224 of the Companies Ordinance | 01 |
| Amount of gain tendered in favour of the Commission | 05 |
| Amount of gain tendered in favour of the Issuers | 02 |
| In process | 01 |
| Pending with Lahore High Court, Lahore | 01 |
| Pending with Supreme Court of Pakistan | 02 |

7.7.4.2 Administrative Appeals

In addition to an appeal during the period, Mr. Ghulam Muhammad Malkani Chief Executive Officer of JS Global Capital Limited formerly Jhangir Siddiqui Capital Management Markets Limited filed appeal against the order of Executive Director (SMD) before the Appellate Bench of the Commission. Two appeals were accordingly pending before the Bench of the Commission.

7.7.5 Credit Rating Companies

With the emergence of legislations such as Sarbanes-Oxley and Basel-II, the need for having a mandatory requirement for listed companies to get their respective credit ratings duly assessed by a credit rating agency became even more vital. Currently, two credit rating companies - Pakistan Credit Rating Company Limited (PACRA) and JCR-VIS Credit Rating Company Limited are functioning to assign ratings to entities and financial instruments/products.

During the year under review, the credit rating companies issued 315 ratings to various companies. To streamline the rating process, the Commission keeps a constant watch over the activities of these companies.

To further strengthen the role and standard of Credit Rating Companies in Pakistan, a joint committee, comprising officials of SBF and the Commission has been established during the current financial year. To proceed further in the matter, the said Committee has jointly finalized its Terms of Reference (TOR) as:

- Study the proposal of mandating all listed companies to get themselves rated from Credit Rating Companies and to make recommendations in this regard.
- Accreditation of Credit Rating Companies in the context of Basel II and requiring the rating agencies operating in Pakistan to get their rating methodologies independently assessed by reputed international agencies.
- Amendment in the existing rules for Credit Rating Companies to make their procedures more effective and comprehensive.

SECURITIES MARKET DIVISION

- Hiring of an international consultant for advising and assisting in attracting and introducing reputed foreign credit rating companies in Pakistan.

7.7.6 Investor Awareness

The Commission by virtue of its mandate is required to protect the interests of general public investing in securities through the stock exchanges of the country. The Commission strongly believes that investors are the backbone of the securities market. They not only determine the level of activity in the securities market but also the level of activity in the economy.

Recognizing the importance of the dissemination of investment knowledge among the Pakistani population across the country, the Commission launched a comprehensive educational campaign aimed at creating awareness among investors about securities market. With this aim, the Commission has published a series of booklets for imparting valuable information/knowledge to the general public. All the rules regulations and securities laws have been placed on the official website of the Commission for access by general public. A list of member-brokers and their agents registered with the Commission is also available on the same website. The exchanges have also been advised to place list of their members and agents on their websites. Moreover, during the last few years the Commission in collaboration with CDC has conducted various road shows both local and abroad. To keep this pace and momentum, the Commission in collaboration with CDC, stock exchanges and other stakeholders has also chalked out a detailed programme for the year 2008 to conduct road shows and to organize seminars/workshops in various cities of the country.

7.8 Developmental Activities**7.8.1 OffMarket Transactions**

In line with the Commission's objective of achieving enhanced transparency and monitoring of the Capital Market in the country, the Commission instigated measures to make compulsory the reporting of all off-market transactions at the stock exchanges. In this regard, the stock exchanges were advised to develop automated systems for recording of off-market transactions. The said system has been implemented by KSE with effect from September 4, 2007.

7.8.2 Automated Process for Handling Corporate Actions in CFS Transactions

The Commission during the year under review initiated work to automate the process of handling corporate actions in order to make the same more effective, transparent and efficient. For this purpose, the Commission in consultation with the stakeholders agreed on a mechanism whereby the current practice of forced release of securities in CFS transactions in case of bonus and/or right issue in a security has been substituted by a process whereby the ultimate beneficiary will receive the said benefits directly in their name. The Exchanges, CDC and NCCPL are currently working on the development of an automated mechanism for execution of the said methodology.

7.8.3 Regulatory Audit of the Stock Exchanges

During the year under review the Commission advised the stock exchanges to have comprehensive Regulatory Audit conducted. The regulatory audit aims to evaluate the operational and regulatory efficiency of the exchanges in order to ensure regulatory compliance and satisfactory performance of the exchange as self regulatory organization (SRO). In order to meet the primary goal of reliability and reliance on such Regulatory Audit, the Commission approved a standardized set of Terms of Reference for the auditors to be appointed by the Exchanges.

SECURITIES MARKET DIVISION

7.8.4 Restriction on In-House Badla

In-House Badla was prohibited by the Commission with effect from November 20, 2006. This was a major step aimed at bringing all financing in the Capital Market within the ambit of reported trades. In-house badla was a non-transparent method of financing weak holders' wherein the scrips financed were more risky and prone to market manipulation besides having excessive rates of financing.

7.8.5 National Clearing Company of Pakistan Limited (NCCPL)

In line with the Commission's objective of transfer of the risk management of the exchanges to NCCPL, in line with international best practices, the Commission took various steps to further strengthen the basic infrastructure of NCCPL. As a first step towards achieving this goal, NCCPL is in the process of evaluating the risk management of its Non Broker Clearing Members (NBCM) in the FI Margining System which is due to go live shortly.

In the second step, with the implementation of CFS Mk II on the NCSS platform, a major portion of the risk management is to be transferred to NCCPL from the Exchanges, thereby resulting in NCCPL managing bulk of the settlement risk. A major step in the direction of transfer of complete Risk Management to NCCPL is the setup of IT infrastructure within the organization, which was lacking earlier. Furthermore, the Commission has also taken steps to further increase the paid-up capital of NCCPL to Rs. 300 million, as well as the reduction of share holding of stock exchanges in NCCPL to 30% of the overall Paid-up Capital.

7.8.6 Corporate Debt Market

The Commission formed a working group on "Debt Market and Commercial Paper" to identify impediments to the development of the debt capital market and to recommend appropriate steps for promoting issuance and market-making of money market instruments in the country. The working group comprised 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 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 has also recommended the following amendments in the Stamp Act, 1899:

- Existing rate of 0.15 percent stamp duty be reduced to 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).
- Existing rate of 0.2 percent stamp duty be reduced to 0.02 percent per annum i.e. linked to the maturity period of the commercial paper or Rs. 100,000 whichever is lower.

The Government of Punjab has reduced stamp duty on debentures and commercial papers in accordance with the recommendations of the Working Group. The matter of reduction in stamp duty on debentures and commercial papers is still under process with the provincial Governments and administration of the Islamabad Capital Territory.

The Commission also constituted a "Debt Capital Market Committee", headed by the Chairman of the Commission, for the development and promotion of debt capital market in Pakistan. The committee comprised of representatives from commercial banks, investment banks, mutual funds, issuers and lawyers. The committee has finalized its report which has been placed on the Commission's Website for information of all the stakeholders. The most significant recommendations of the committee with regard to omission of the provision requiring compulsory listing has been accepted by the Commission and implemented.

7.8.7 Margin Financing

The Commission is striving to promote Margin Financing parallel with other modes of leverage financing. In this context, the stock exchanges have been advised to review the existing Margin Financing Rules and Regulations and come up with a proposal for amendments therein in light of the capital market requirements.

Margin accounts allow investors to buy shares with a relatively small amount of cash or margin up front by using the assets currently held in their accounts as collateral. Margin financing will effectively lead to monitoring of risk at three levels. Firstly, the exchanges will monitor the risk at broker level and, secondly, the broker will carry out due diligence of his customers. Thirdly, banks and DFI's providing margin financing will monitor the risk of providing margin financing to brokers and/or investors directly.

7.8.8 Establishment of Trading Floors in Peshawar and Quetta

Considering the expanding investor base and in order to provide a level playing field for investors based in NWFP and Baluchistan, the Commission has proposed to the stock exchanges the establishment of trading floors in Peshawar and Quetta. The Islamabad Stock Exchange and Lahore Stock Exchange have decided to jointly set up a trading floor in Peshawar for which feasibility study has to be carried out and the work is in progress.

7.8.9 Islamic Index

The Commission has proposed the introduction of an Islamic Index at the stock exchanges in particular KSE. The purpose of introducing this Index is to promote the listing of Sharia-compliant companies on the Pakistani stock market and encourage international and local players to list and trade their Shariah-based shares/instruments on an Islamic index.

7.8.10 National Commodity Exchange Limited (NCEL)

NCEL is Pakistan's first electronic commodities futures exchange which commenced operations on May 11, 2007. NCEL is a technology driven demutualized on-line commodity futures exchange and employs modern risk management techniques based on Value-at-Risk. NCEL plans to provide platform for market participants to trade commodity futures and started its operations with three month gold futures contracts. Establishment of the NCEL is anticipated to pave the way for transparent price discovery of the underlying.

• NCEL Regulations

The day to day operations of the Exchange are regulated under the General Regulations of the National Commodity Exchange Limited that were approved by the Commission.

• Membership

NCEL currently has 256 members (251 Universal Members and 5 Gold Specific Members). Soon after commencement of its operation the exchange with the approval of the Commission offered new memberships and also introduced two new types of memberships to cater to the needs of different sectors/players. NCEL introduced different categories of membership to cater to the market needs of different segments which are:

- o Universal Membership
- o Commodity Specific Membership
- o Commodity Specific Institutional Clearing Membership
- o Commodity Specific Trading membership

By allowing and offering new and different types of memberships, NCEL is now among those demutualized exchanges which do not impose a ceiling on the number of memberships they can grant, and just permit the same provided they comply with various other requirements and are fit and proper to undertake such business.

• Broker Registration

In order to undertake the business of dealing in commodity futures contracts, members of the exchange are required to register with the Commission under the Commodity Exchange and Futures Contract Rules, 2005. During the period under review, 27 brokers have been registered.

• First Gold Futures Contract (Basic specs of gold contract)

The first 3 month Gold Futures Contract with August maturity began trading on May 11, 2007. Highlights of the first Gold with August 07 maturity contract are as follows:

- o Total number of contracts traded 1109
- o Total number of contracts off-set prior to maturity 1079
- o Open interest on expiry 30 contracts
- o Highest traded volume on June 1, 2007 of 7200 grams (72 contracts)
- o Highest traded value \$161336 (Rs. 9,760,828) on June 1, 2007
- o Maximum open interest 21500 grams (215 contracts)
- o Final settlement price on August 15th 2007 Rs. 13190

The final settlement of the first contract was done in accordance with the gold contract specifications and resulted in physical deliveries of 3 Kilograms of pure gold cast in 1 Kilogram serial numbered bars each of 0.9999 fineness produced by a London Bullion Market Association (LBMA) certified refiner and freshly imported into Pakistan with delivery at Karachi.

• Investor Education

In accordance with the recommendations of the Commission, NCEL undertook investor education and awareness programs in Karachi, Lahore and Islamabad to develop the knowledge base of market participants and convey the basics about futures markets and futures trading. NCEL also organised the 1st Annual Pakistan Derivatives Conference called "Demystifying Derivatives."

7.8.11 Futures Trading Act

In order to bring the Pakistan's capital market at par with international markets in terms of derivative trading, a comprehensive regulatory infrastructure was framed to ensure the effectiveness and enforceability of futures and derivative transactions. 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 draft Futures Trading Act has been submitted for approval to the Ministry of Finance and is under process.

7.9 Future Plans

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

7.9.1 Demutualization of Stock Exchanges

The Commission is vigorously pursuing the process of demutualization, which is a well established global trend and has been adopted by various jurisdictions around the globe.

During 2006-2007, the dialogue process with the stakeholders continued and the stakeholders' apprehensions were resolved. All stock exchanges agreed to support the establishment of the demutualized stock exchanges. In view of specific features and unique requirement of corporatization, which necessitated the promulgation of an independent and comprehensive piece of legislation, SECP, during the period under review continued the process of drafting a special legislation to enable corporatization, demutualization and integration of stock exchanges. The Commission adopted a participative and consultative process while developing the legislation. The legislation covers provisions relating to corporatization and empowers the Registrar to issue amended certificate of incorporation to a corporatized stock exchange. The legislation further deals with process of demutualization, constitution of board after demutualization, election of directors, divestment of shares to diversify the investor base, restrictions on sale and purchase of shares by different categories of shareholders. The Commission shall have the power to alter shareholding restrictions and/or to require any category of shareholder to disinvest their shareholding in case the shareholder has crossed the threshold level. The legislation also deals with provisions relating to trading rights and listing of shares of stock exchange. The legislation further empowers Commission to approve scheme of integration/merger submitted by stock exchange and effectuate transfer of rights and obligations as if the Scheme was approved by the Court.

7.9.2 Formulation of Rules and Regulations

Preliminary draft of the following Rules/Regulations has been prepared:

- Regulations for issue of shares through book building;
- Bankers to an Issue Regulations;
- Debenture Trustee Regulations;
- Ballot and Securities Registrar Rules; and
- Rules/Regulations listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Regulations.

These Rules/Regulations will be notified after necessary review and due deliberation by the Commission.

7.9.3 Codes of Conduct for Analysts, Fund Managers and Brokers

A phased approach for the implementation of the said codes of conduct has been adopted by the Commission. As a first step towards implementing these Codes, the Commission has invited the comments of the stakeholders on the Draft Codes. The Codes will be finalized and implemented after taking into consideration the feedback of the stakeholders. The Commission is also contemplating introduction of an examination requirement for investment professionals/analysts on lines similar to CPA examination.

7.9.4 Regulatory Framework for Risk Management

With a view to give Regulatory cover to the currently applicable New Risk Management System, changes in the Regulatory Framework of the Bourses are being carried out on priority basis.

7.9.5 Trading by Employees of Brokerage Houses and Intra Exchange Trading between Brokerage Houses

The Karachi Stock Exchange has submitted proposals for trading by employees of Brokerage Houses and intra-exchange trading between brokerage houses. The Commission is reviewing the proposal of the Exchange together with international practices in this area, in order to develop necessary regulations.

7.9.6 New Derivative Products

The Commission is actively pursuing the exchanges to develop new derivative products for the capital market in order to further broaden the scope of trading activity at the bourses. In this regards, draft white papers on the development of two new derivative products, namely Stock Index Futures and Stock Options is currently under review by the stock exchanges.

Chapter 8

Specialised Companies Division

| | |
|----------------------------------|-----|
| Sector Overview | 89 |
| Performance Review | 96 |
| Monitoring and Enforcement | 100 |
| Future Plans | 103 |

Specialised Companies Division

OBJECTIVE: To provide a conducive regulatory environment for development and promotion of a robust Non-Bank Financial (NBF) Sector while protecting interest of the stakeholders; and to facilitate diversification and innovation in products and services of NBF sector.

8.1 Operational Structure

8.1.1 Structure

The Specialised Companies Division's primary responsibilities include licensing, monitoring and enforcement of non-bank financial sector participants i.e. Non banking Finance Companies, Mutual Funds, Modarabas, Real Estate Investment Trusts, Pension Funds, Private Equity Funds and Venture Capital Funds.

8.1.2 Management Team

SCD is headed by Commissioner Mr. Salman Ali Shaikh. He is a senior emerging markets banker having over thirty-two years of 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.

The operational management of SCD rests with the Executive Director Mr. Akif Saeed who is assisted by a team of professionals with diversified backgrounds and experience.



Officers of SCD with ED Mr. Akif Saeed

8.2 Sector Overview

8.2.1 NBFCs

As of 30-06-2007, there are 59 registered NBFCs having following classification of multiple licenses:

- Venture Capital Investment
- Discounting Services
- Housing Finance Services

SPECIALISED COMPANIES DIVISION

- Venture Capital Investment
- Discounting Services
- Housing Finance Services

As of 30-06-2007, there are 59 registered NBFCs having following classification of multiple licenses:

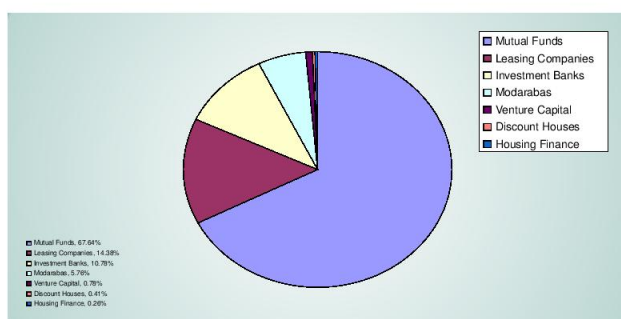
| Type of Business | No of Licences |
|---|----------------|
| Investment Finance Services | 11 |
| Leasing | 16 |
| Investment Advisory and Asset Management Services | 34 |
| House Finance Services | 9 |
| Discount Services | 1 |
| Total | 71 |

An activity-wise over view of assets and deposit of NBF sector as of 30-06-2007 is given below which depicts that NBFC sector, on the basis of assets size, is dominated by mutual funds and leasing sectors which constitute 68 % and 14% of entire NBFC sector, respectively:

| Sector | Total Assets | Total Deposits |
|-------------------|----------------|----------------|
| Mutual Funds | 309.474 | - |
| Leasing Companies | 65.781 | 12.856 |
| Investment Banks | 49.304 | 16.354 |
| Modarabas | 26.348 | 3.553 |
| Venture Capital | 3.573 | - |
| Discount Houses | 1.888 | - |
| Housing Finance | 1.196 | 1.000 |
| Total | 457.564 | 33.763 |

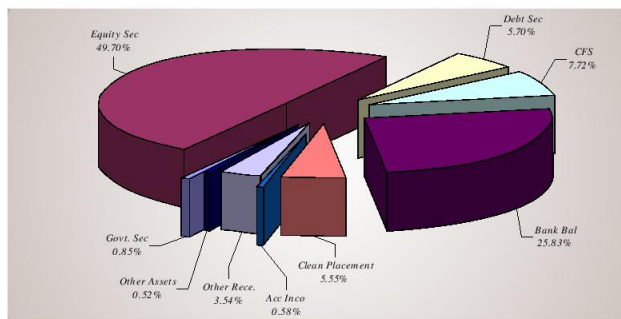
SPECIALISED COMPANIES DIVISION

Composition of NBFC Sector as of 30-6-2007



8.2.1.1 Mutual Fund

Mutual funds recorded the highest growth in terms of assets and numbers. The number of mutual funds increased from 44 as of 30-06-06 to 67 as of 30-06-2007 while their net assets increased from Rs. 160 billion to Rs. 295 billion during this period, depicting a growth of 84 percent. Major growth was observed in the categories of income funds and equity funds. Detail of assets managed under different categories of mutual funds is provided in Table 16 in statistical section.

Assets mix of mutual funds aggregating to Rs. 309 billion as of 30th June, 2007

SPECIALISED COMPANIES DIVISION

Key statistics of close-end and open-end mutual funds on individual basis are shown in Tables 17 and 18 in statistical section.

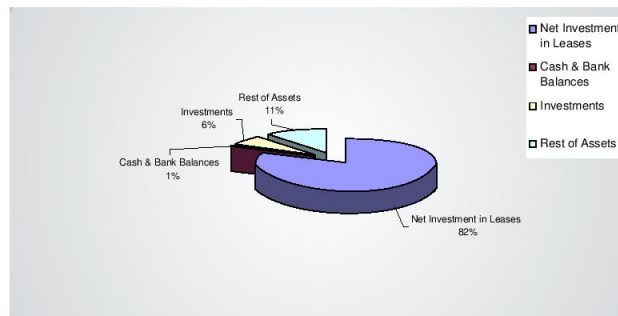
8.2.1.2 Leasing

Out of 23 licensed leasing companies, only 13 are active in this business. Remaining 10 companies are inoperative (see Table 21 in statistical section) owing to various regulatory issues such as non-compliance with the licensing requirements, financial sickness or winding-up proceedings being in process.

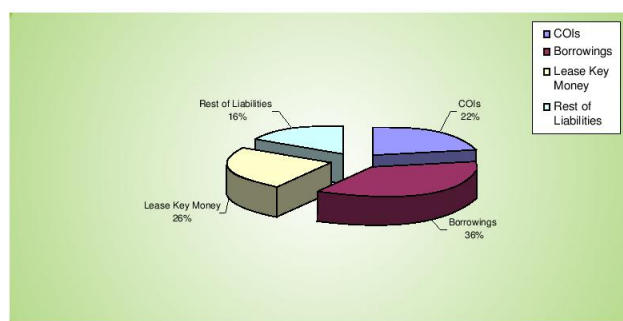
Main statistics of leasing sector as of 30-06-2007 are given below

| | Amount (Rs. in billion) |
|-------------------|-------------------------|
| Total Assets | 65.781 |
| Total Liabilities | 58.309 |
| Total Equity | 7.300 |
| Total Deposits | 12.856 |

Asset Allocation of Leasing Sector



Liabilities Structure of Leasing Sector



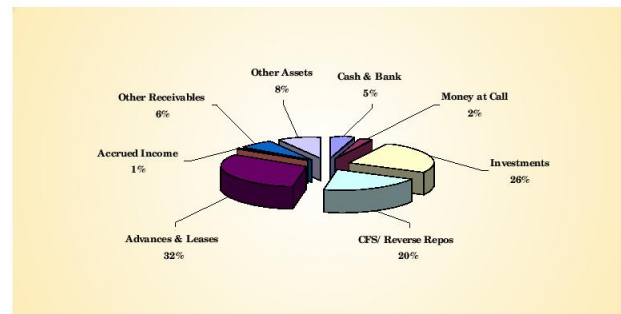
8.2.1.3 Investment Banks

As of 30-06-2007, out of 14 investment banks, only 10 were active licensed investment banks. The remaining 4 companies were inoperative (see Table 21 in statistical section) owing to various regulatory issues such as non compliance with the licencing requirements, financial sickness or being under winding-up proceedings.

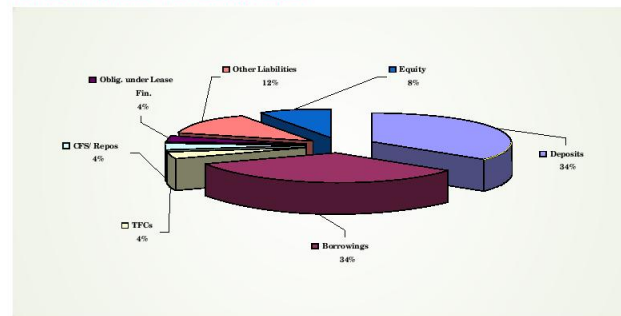
Key statistics of investment banking sector as of 30-06-2007

| | Rs. in billion |
|-------------|----------------|
| Assets | 49.304 |
| Liabilities | 45.450 |
| Equity | 3.887 |
| Deposits | 16.354 |

Asset Allocation of Investments Banks



Liability Structure of Investment Banks



8.2.2 Modarabas

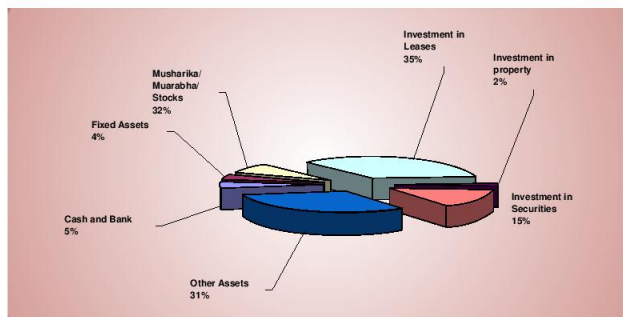
Modaraba Companies and Modaraba (Floatation & Control) Ordinance was promulgated in 1980 to provide the statutory framework for organizing business enterprises according to the injunctions of Islam. Modarabas provide a *Shariah* compliant mode of financing and investment, and have played a vital role in the development and growth of the economy and capital markets since their inception.

SPECIALISED COMPANIES DIVISION

Comparative performance of the sector for last two years is given below:

| | 2007 | 2006 |
|--|--------|--------|
| Modaraba companies | 51 | 51 |
| Modarabas | 29 | 29 |
| Modarabas under winding up | 8 | 7 |
| Modarabas merged | 2 | 0 |
| Modarabas under floatation | 3 | 6 |
| Total paid-up fund of Modarabas (Rs. in million) | 7,408 | 8,000 |
| Total Assets of Modarabas (Rs. in million) | 26,348 | 24,328 |

Modaraba sector funds are allocated among following assets



8.2.3 Private Pensions

Private pensions 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 Voluntary Pension System (VPS) was designed under the VPS Rules, 2005 and implemented during the current year.
- 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.
- With four pension funds kicking off up to June 2007, 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.

SPECIALISED COMPANIES DIVISION

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With four pension funds kicking off up to June 2007, 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 FBR, the employer, participant, and the invested assets enjoy certain tax advantages. On account of this, FBR 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 private pensions may be developed in the country where each part complements the other.

8.3 Performance Review

8.3.1 NBFCs

During the period, SCD undertook various measures for development and stability of Non-banking financial sector. Some of the activities are detailed below:

8.3.1.1 Issuance of Fresh Licenses

During the year, seven fresh licenses were issued to leasing, investment banking and asset management companies (see Table 19 in statistical section). N O C's for establishment of NBFCs intending to undertake investment advisory and asset management services were also issued to eight entities.

8.3.1.2 Renewal of Licenses

During the period under review, licenses of forty eight NBFCs were renewed, details of which can be seen in Table 20 in statistical section of the report.

8.3.1.3 Opening of Branches

During the period, approval for opening of twenty eight new branches in different cities of the country was granted.

8.3.1.4 New fund launched

During the period, twenty three new funds were launched in the following categories:

| Category | New Funds launched |
|------------------------|--------------------|
| Income Funds | 07 |
| Equity Funds | 05 |
| Capital Protected Fund | 03 |
| Islamic Fund | 03 |
| Balanced Fund | 02 |
| Asset Allocation Fund | 01 |
| Money Market Fund | 01 |
| Sector Fund | 01 |
| Total | 23 |

8.3.1.5 Issuance of No Objection Certificate (NOC) for change of management

During the period, NOCs were granted for change of management of Net Work Leasing Corporation Limited to KASB Capital Limited, International Housing Finance Limited to Mr. Nasir Ali Shah Bukhari and Crescent Leasing Limited's shareholding to Al-Zamin Modaraba Management (Pvt.) Limited. Moreover, Crescent Standard Investment Bank Limited was merged with and into Innovative Housing Finance Limited under section 282L of the Companies Ordinance, 1984.

8.3.2 Modarabas

8.3.2.1 Registration of New Modaraba Company

During the year, one Modaraba Management Company (MMC) namely; First Asian Business Corporation Limited was registered under Section 6 of the Modaraba Ordinance, 1980.

8.3.2.2 Commencement of Business by Modarabas

During the year, Allied Rental Modaraba commenced its business operations after being listed on the stock exchange.

8.3.2.3 Merger of Modarabas and Modaraba Companies

Modaraba Wing has been encouraging mergers. During the year, NOC was issued for the scheme of amalgamation of M/s. Providence Modaraba Limited with BRR Investment (Pvt.) Limited and Guardian Modaraba into BRR International Modaraba.

8.3.2.4 Approval to Increase Authorized Fund of Modaraba

In terms of Rule 20 of the Modaraba Rules, approval for increase in authorized fund was granted to Standard Chartered Modaraba.

8.3.2.5 Transfer of Major Shareholding of Modaraba Company

Approval for transfer of major shares of Al-Zamin Modaraba Management (Pvt.) Limited held by Pak Libya Holding Company (Pvt) Ltd to different individuals was granted.

8.3.2.6 Development Activities

Modaraba Wing has taken the following initiatives for the development and regulation of the Islamic financial market:

- ? For promotion and development of a prudent and transparent Islamic financial services industry, Associate Membership of Islamic Financial Services Board (IFSB) based in Malaysia was obtained in April, 2007 for introducing international standards consistent with Shariah principles.
- ? Ten new model financing agreements have been drafted and are being considered by Religious Board for approval to standardize the legal documentation for Modaraba finance facilities:

| | |
|----------------------------------|-------------------------------------|
| 1. Ijara Agreement | 2. Musawamah Agreement |
| 3. Musharaka Agreement | 4. Istisna Agreement |
| 5. Murabaha Agreement | 6. Salam Agreement |
| 7. Syndicate Modaraba Financing | 8. Modaraba Financing Agreement |
| 9. Syndicate Musharaka Financing | 10. Diminishing Musharaka Agreement |

8.3.3 REITs and New Initiative Wing

In line with its mandate, the Commission continuously strives to offer new financial products to the investors which are tailored to suit the prevailing market conditions. Major initiatives in this respect include introduction of Real Estate Investment Trusts (REITs), Private Equity and Venture Capital Funds (PE&VCF).

8.3.3.1 Real Estate Investment Trust Regulations

In exercise of the powers conferred by section 282B (2) of the Companies Ordinance, as amended, REITs Regulations 2007 were drafted and placed on the Commission's website in July 2007 to elicit public opinion.

8.3.3.2 Private Equity and Venture Capital Fund Regulations

Private Equity and Venture Capital Funds Regulations 2007 were also drafted and placed on the Commission's website in August 2007 to elicit public opinion. Private equity is a distinct asset class that can play a vital role in transformation of the economy by providing growth capital to the local corporate sector. Private equity will unlock the hidden value of the private companies by providing capital and managerial skills for growth and expansion. It will also assist in the turnaround of sick and badly managed companies and would help Pakistan attract foreign direct investment. PE&VCF will be an unlisted closed-end unit-trust fund open only to high net-worth individuals and institutions due to its intrinsic nature of being a high-risk asset class. The fund will provide equity for seed/start-up capital, expansion, and buyout as well as turn around, primarily to private companies. However, it can venture into privatization deals as well.

8.3.4 Private Pension

8.3.4.1 Registration of Pension Fund Managers

Towards the end of the year 2006, focused market consultations were followed by expressions of interest by asset management companies for registration as Pension Fund Managers. Consequently, four asset management companies were granted registration in January 2007.

8.3.4.2 Guidelines

The following guidelines have been issued to facilitate pension funds:

- Registration of Pension Fund Manager
- Authorization of the Pension Fund
- Appointment of Trustee of the Pension Fund

In addition to the above, the draft guidelines on record keeping, advertisements and invitations have been placed on the company website to elicit public opinion and are expected to be finalized shortly.

8.3.4.3 On-site visit of Pensions Fund Managers

Onsite inspections of all registered pension fund managers was conducted to ascertain the status of implementation of the Voluntary Pension System and to address any potential issues of the Fund Managers. The objective was to expedite the authorization of Pension Funds. Discussions with the Trustee were also held to gather their perspective to ensure synchronized and unidirectional progress on the part of all stakeholders.

8.3.4.4 Authorization of the Pension Funds

The registration of the Pension Funds was followed by a series of dialogues, meetings and exchange of views with all the Pension Fund Managers which resulted in the submission of the trust deeds of the proposed Pension Funds. The Pensions Wing performed a critical appraisal of the provisions of trust deeds in light of the Voluntary Pension System Rules, 2005 to ensure compliance with all applicable laws and regulations. This was in line with the Commission's objective of protecting investor interest against any undue or unforeseen circumstances.

8.3.4.5 Developments in relation to Occupational Savings Schemes

Presently, private occupational savings schemes including pension funds, gratuities and provident funds are not being regulated by any agency. The Commission initiated an effort to develop and introduce a regulatory framework for private occupational saving schemes so that a uniform system of private pensions may be developed in the country where each part complements the other. The Commission hired the services of an internationally renowned pension expert to review the existing schemes in corporate sector and to advice on the regulatory framework. In this regard, an interactive workshop was also arranged in which leading professionals from insurance, actuary, corporate and asset management sectors participated. All the broad areas for the regulatory framework were discussed and a general consensus was achieved that has been made part of the report of the pension expert. To move the matter further a sample survey of occupational saving schemes of all listed companies has been initiated and will be finalized by December 2007. Based on the report and sample survey, guiding principles for the regulatory framework would be evolved and put up for public comments.

8.4 Monitoring and Enforcement

8.4.1 On-site Inspections

During the year, in addition to the existing set-up Specialized Companies Division established an inspection wing at Karachi to strengthen monitoring of NBF sector largely based in Karachi. During the period under review inspections of 23 entities including Investment Banks, Leasing companies, Mutual Funds, Modarabas, Venture Capital Funds were carried out. The inspections helped the Commission to analyze their financial health, management performance, systems & controls and compliance with laws & regulations. The inspection findings of these entities may be grouped as follows:

A) Investment Banks, Leasing Companies & Modarabas:

- Weak Internal Controls
- Highly centralized decision making
- Minimum board involvement
- Non-independence of Internal/External Audit
- Improper books of accounts
- Huge investments in associated/group companies
- Transfer of sponsoring shareholding without approval
- Fund raising against pledge of sponsoring shares
- Non-Shariah compliant activities in case of Modarabas

B) AMCs, Investment Advisors & Mutual Funds:

- Dependence on highly unstable institutional investors
- High exposure in bank deposits
- Minimum role of Investment Committees
- No uniform policy on sales load
- Weak research capacity

8.4.2 Off-Site Monitoring

The objective of off-site monitoring is to proactively supervise and monitor the NBF sector on the basis of different periodical returns being submitted to the Commission. Annual audited accounts and other periodic statements were examined during the year to ensure compliance with the NBFC Rules, Prudential Regulations, Companies Ordinance, Modaraba Ordinance, Modaraba Rules and International Accounting Standards. On the basis of the examination, appropriate proceedings were initiated against non-compliant companies.

8.4.3 Enforcement Actions

On the basis of on-site inspection, investigation and off-site monitoring the following enforcement actions were taken:

• Show Cause Notices

On the basis of findings of off-site surveillance and on-site inspections, two show-cause notices were issued to NBFCs and 20 show-cause notices were issued to Modaraba Management Companies (see Table 23). Action was taken against 15 Modaraba companies and four mutual funds (Table 22 and 24). In addition, detailed investigations under section 265 of the Companies Ordinance, 1984 was ordered in cases of two mutual funds. Registration of eight Modaraba Companies was cancelled as these failed to float any Modaraba and their names were de-registered from the Register of Modaraba Companies. Moreover, warnings under section 32 of the Modaraba Ordinance were issued to two Modarabas.

SPECIALISED COMPANIES DIVISION

• Change of Management of Modaraba

Due to gross violations of the Modaraba Ordinance, Rules and Prudential Regulations, the registration of one Modaraba Company was cancelled and in its place, another existing Modaraba Company was appointed to manage the Modaraba.

• Inspection Orders

Registrar (Modarabas) ordered inquiries into the affairs of six Modarabas by appointing inspectors under section 21 of the Modaraba Ordinance, 1980. These inquiries were in progress.

8.4.4 Revivals & Mergers

8.4.4.1 Crescent Standard Investment Bank Limited

An on site inspection into the affairs of Crescent Standard Investment Bank Limited (CSIBL), one of the largest investment banks, revealed gross financial irregularities and violations of prevalent regulatory framework. Therefore, Commission superseded the Board of Directors of CSIBL in terms of Section 282E and 282F of the Companies Ordinance, 1984 and appointed an Administrator to manage the affairs of CSIBL on 29th August 2006.

The Administrator was assigned the twin responsibilities of preserving the assets of the bank and identification of a genuine investor/buyer for revival of CSIBL for the protection of the interest of stakeholders; especially depositors. The Administrator identified a U.K Based group as potential buyer for the acquisition and revival of CSIBL through merger with and into a newly formed wholly owned NBFC. The prospective buyer committed initial capital injection of Rs.800 million and a further injection of Rs.200 million and Rs.500 million in the year 2008 and 2009, respectively. In order to assess and verify the credentials of the prospective buyer, its business operations in United Kingdom and United Arab Emirates were reviewed/inspected by the Commission and found to be satisfactory. The Commission after thorough examination of the proposed revival plan and having satisfied itself granted the approval for merger proposal in accordance with the provisions of Section 282 L of the Companies Ordinance, 1984. The said approval for the merger not only helped in paying off the depositors and creditors of an insolvent NBFC but also revived a sick institution as a viable financial intermediary.

8.5 Miscellaneous

8.4.5.1 Investors' Complaints

During the period under review, 164 complaints were received from investors. These pertained mainly to the following issues:

- Non-receipt of dividend warrants
- Non-receipt of share certificates
- Maladministration/corruption of company management
- Non-receipt of account statements
- Charging of excess mark-up on facilities

Immediate and appropriate actions were taken to resolve all complaints received during the year.

8.6 Work in Process

8.6.1 Review of NBFC Rules and Regulations

In order to make the existing regulatory framework more comprehensive to cater to the new challenges and

SPECIALISED COMPANIES DIVISION

developments and to address the anomalies identified during the inspection process, certain amendments were suggested. The amendments to the rules were initiated in June 2006 and were published in the official Gazette in September 2006. Thereafter, extensive consultation with the stakeholders took place and feedback received was considered and incorporated. The said amendments were finalized and approved by the Commission in December 2006. The salient features of the proposed amendments can be summarized as under:

- Introduction of concept of two separate clusters for NBFC activities i.e. NBFC undertaking investment advisory or asset management services shall not be eligible for seeking licence for any other activity. Similarly, NBFC undertaking investment finance services or leasing or housing finance services or discounting services or any combination thereof shall not be eligible for seeking licence of investment advisory or asset management services
- Segregation of brokerage business and investment finance services
- Increase in minimum regulatory equity requirement to encourage consolidation and enhance the shock absorption capacity
- Introduction of Fit and Proper Test in relation to NBF sector to promote corporate governance
- Revision of various exposure limits to mitigate different risk factors

8.6.2 Real Estate Investment Trust Regulations

The REITs Regulations 2007 were drafted and placed on the Commission's website in July 2007 to elicit public opinion. These draft Regulations are the product of two years of concerted effort by the Commission and the concerned stakeholders including, representatives of Federal and Provincial Governments, valuers, real estate developers, overseas investors, industrialists, contractors, designers, and other market entities.

The Commission in order to offer market participants every opportunity to contribute to the development work undertaken for the market, held two stakeholder meetings in Karachi and Lahore. A detailed dialogue was held on the draft regulatory framework to make it conducive for the growth of REITs in Pakistan. The draft REIT Regulations 2007 are being finalized keeping in view the stakeholders comments received and shall be notified soon.

8.6.3 Voluntary Pension System

While four conventional Pension Funds have already been authorized and are in the process of receiving contributions from the participants, evaluations of draft trust deeds of three Islamic Pension Funds are underway for authorization of the proposed Islamic Pension Funds in the next year. The Pensions wing has also drafted the financial reporting formats of the Pension Funds and has invited stakeholder feedback before implementing the formats. Moreover, guidelines on financial reporting and on valuation of securities are being prepared which are expected to be finalized in the next fiscal year. With the Voluntary Pension System gradually picking roots, substantial progress is anticipated with continuing efforts to regulate the occupational savings schemes. The Commission will accelerate its efforts toward effective regulation of occupational savings schemes based on the result of sample survey, market input and consultant recommendations.

8.6.4 Modarabas

A regulatory framework for companies offering Islamic financial services is under draft. This framework is intended to certify and regulate all NBFCs and, more so, any company under the SECP's mandate which seeks to call itself a Shariah compliant company.

SPECIALISED COMPANIES DIVISION

8.7 Future Plans**8.7.1 NBFCs**

- Formulation of an independent NBFC Law 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.
- Amendments to the NBFC Rules drafted in consultation with the stakeholders and in light of international best practices will be promulgated and implemented.
- Strengthening of Code of Corporate Governance
- Rationalizing of NBFCs returns in light of amendments in Rules, Regulations and Ordinance.
- Shifting of Off-Site Monitoring of NBF sector from their periodical returns to computer based MIS reports.

The computerization of returns and development of software for generation of MIS reports will be initiated. These MIS reports would encompass analysis of submitted information to assess the financial health, risk measurements and regulatory compliance.

- On-site inspections of entities, especially deposit raising institutions to determine their true financial health and their compliance level with specific reference to NBFCs rules and regulations will be conducted.
- Enhancement of Risk Assessment to target fraudulent, illegal or questionable practices that pose greater risk to investors and the market.

8.7.2 Pensions

- Appropriate amendments in the SECP Act, 1997 shall be proposed to include occupational savings schemes in the Commission's mandate.
- Work on development of regulatory framework for private occupational saving schemes would be accelerated in light of the market feedback and the information gathered through market surveys. A code of conduct for occupational savings schemes would be developed followed by initial legislation for mandatory registration of all occupational pension/savings arrangements.
- The disharmony of tax treatment in different variants of occupational savings arrangements at contribution stage, income stage and withdrawal stage shall be reviewed.
- To develop a system whereby pension funds will be under continuous surveillance and monitoring to cater for and resolve any potential issues that may be faced as a result of uncertain market conditions/regulatory issues.

Chapter 9

Insurance Division

| | |
|--------------------------------|-----|
| Sector Overview | 106 |
| Performance Review | 106 |
| Achievements/Initiatives | 107 |

Insurance Division

OBJECTIVE: To protect the interests of insurance policyholders and promote sound development of the insurance industry.

9.1 Operational Structure

9.1.1 Structure

Insurance Division (ID) is responsible for the supervision and monitoring of insurance industry (including insurance companies, takaful companies and intermediaries) for ensuring compliance with relevant legal and regulatory framework.

For effective supervision of Pakistan's insurance industry, World Bank, IMF and ADB had been emphasizing the need on either moving the entire ID from Islamabad in the proximity of the majority of its regulatees i.e. in Karachi or expand its presence there. Recognising the need and importance of being in the proximity of its regulatees, the Commission, during the period under review, restructured ID by creating Southern Office in Karachi (to regulate companies in southern region) and Northern Office in Islamabad (to regulate the companies in northern region). Regional offices have been divided into following wings:

A. Southern Office, Karachi

- Life Insurance (all life insurers and family takaful companies)
- Non-Life Insurance (South based non-life insurers and all general takaful companies)
- Research and Development

B. Northern Office, Islamabad

- Non-Life Insurance (North based non-life insurers)
- Registration (Licensing of insurance/takaful companies, insurance brokers, insurance surveyors and authorized surveying officers)

9.1.2 Management Team

During the year under review, Mr. Shafaat Ahmad, Executive Director, retired from service and Dr Muntaz Ahmed Hashmi, Advisor Insurance, was entrusted with the responsibility to supervise Insurance Division in addition to his existing role as advisor.



Officers of ID in a meeting with Advisor Insurance Dr. Muntaz Hashmi

9.2 Sector Overview

The insurance industry of Pakistan, in terms of insurance density and penetration, is significantly smaller than other countries in the region.

Insurance Density: Pakistan USD 5.65 (in 2006) against India USD 22.70, Iran USD 36.10 & Sri Lanka USD 16.30 (in 2005).

Insurance Penetration: Pakistan 0.73% (in 2006) against India 3.14%, Iran 1.23% & Sri Lanka 1.46% (in 2005).

Major reasons for this situation are lack of awareness, low literacy rate; lack of importance the individuals give to insurance and the belief amongst substantive portion of the population that insurance is un-Islamic.

Though insurance industry in Pakistan is underdeveloped relative to its potential, it has shown a promising growth of well over 20% during the last couple of years (2006: 21.4% and 2005: 25.9%).

As on June 30, 2007, there were 50 insurance companies including (46 non-life, 4 life) and 2 general takaful companies operating in the private sector. State Life Insurance Corporation of Pakistan (SLIC), the public sector entity transacting life insurance business, has been gradually losing its life insurance market share to private sector life insurers. For instance, SLIC held over 70% share in the life market in 2006 as against 75% in 2005 and 76% in 2004. National Insurance Company Limited (incorporated in 1976) is the state-owned entity having exclusive right to insure all public property and interests. Breakup of insurance sector in Pakistan and details of gross written premium are provided in table 25 and 26 respectively.

9.3 Performance Review

During the year, ID examined level of compliance by the registered insurers with requirements of reinsurance and minimum solvency margins. ID carried out the responsibilities of enforcement of the Companies Ordinance as applicable to insurance and takaful companies.

ID's performance as to the registration of new insurance/takaful companies, insurance brokers, insurance surveyors and authorized surveying officers was as under:

9.3.1 Insurance/Takaful Companies

Prior to processing an application for registration to act as an insurance or takaful company, the essential prerequisite, after obtaining the ID's consent, is incorporation of a company under the Companies Ordinance. By June 30, 2007, out of 9 permissions granted to the interested applicants including four non-life, one general takaful and four family takaful, two applications for registration including one general takaful and one family takaful were in the final stage for issuance of the Licences. In addition, one licence to write non-life insurance business and one licence to transact general takaful business were also granted by the ID.

9.3.2 Insurance Brokers

Two fresh Licences were issued to insurance brokers. Total number of registered insurance brokers was four, as on June 30, 2007.

9.3.3 Insurance Surveyors & Authorized Surveying Officers

During the period, 26 firms were issued licences to act as insurance surveyors and 23 natural persons were registered to act as authorized surveying officers.

INSURANCE DIVISION

9.4 Achievements/Initiatives

ID has been taking initiatives and working on a number of reforms to ensure the protection of the interests of insurance policyholders and to facilitate and promote sound development of the insurance industry. Key achievements and initiatives in progress during FY-2007 are summarized below:

9.4.1 Minimum Paid-up Capital Raised

Protection of policyholders' interest and sound development of the insurance industry are directly linked with the financial strength of the insurance companies. Keeping this in view, minimum capital requirements have been raised to Rs.500 million for life insurance/family takaful companies and Rs.300 million for non-life insurance/general takaful companies. Existing life insurance/family takaful companies are required to meet these higher levels by 2010 and non-life insurance/general takaful by 2011.

9.4.2 Amendments made in the Insurance Ordinance 2000

Important amendments were made in the Insurance Ordinance, 2000 through the Finance Act, 2007, which has empowered the Commission to conduct on-site inspection of an insurance/takaful company, and if so needed, to enter the company's premises for search and take possession of such records and documents etc. that it may require as evidence and to remove a person holding the office of chairman, chief executive, director, manager or principal officer.

9.4.3 100% Foreign Equity Allowed

The Government has allowed operation of fully foreign owned insurance companies in the country. However, foreign companies are required to arrange minimum foreign exchange of US\$ 4 million (of which at least US\$ 2 million must be brought from abroad). For meeting the minimum paid-up capital requirements under the Insurance Ordinance any balance required over and above the required foreign equity can be raised locally.

9.4.4 Review of Minimum Solvency Requirements

A Committee formed by the Commission to review the minimum solvency requirements for insurance companies (including allocation of investments), criteria for admissibility of assets and reporting on solvency by insurers, as part of the regulatory accounting reforms, has submitted its recommendations. Before drafting and introducing the revised accounting regulations, the Committee's report has been shared with the relevant stakeholders for obtaining their comments. The Commission is striving to ensure timely framing and notification of the regulations so that new returns are filed by the insurers on the revised basis.

9.4.5 Finalization of Draft of Actuarial Valuation Regulations

In consultation with the Pakistan Society of Actuaries and Life Insurers, the Commission has finalized Actuarial Valuation Regulations, which will be forming part of the revised accounting regulations.

9.4.6 Conversion of Pakistan Insurance Institute

ID has made significant contribution to make a case for conversion of Pakistan Insurance Institute into a self-reliant degree awarding center of academic and professional excellence in insurance, takaful and related topics to effectively meet the current and future IJR needs of the insurance industry. This proposition has already been approved by the Prime Minister during the Insurance Sector Policy Review in April 2007.

INSURANCE DIVISION

9.4.7 Crop Insurance

As a member of SBP's Committee on Crop Insurance, the Commission has contributed towards development and introduction of crop insurance products.

9.4.8 Elimination of Bogus Motor Third Party Insurance Certificates

To eliminate the issuance of bogus motor third party compulsory insurance certificates by unauthorized persons/entities and to ensure that the uninsured vehicles on the country's roads have proper insurance cover issued by registered insurance/takaful companies, the Insurance Division in consultation with the Insurance Association of Pakistan (IAP) has developed a comprehensive proposal which will be implemented shortly.

Salient features of the proposal are:

- Excise & Taxation Department will ensure that all third party insurance certificates submitted at the time of payment of motor vehicle tax are issued by registered insurance/takaful companies. Interior Ministry has agreed to ensure strict compliance of the provisions;
- The Commission shall provide a list of registered insurance/takaful companies who are authorized to issue the certificates. Excise and Taxation Department shall only accept certificates issued by these entities;
- IAP has agreed to issue third party insurance certificates which provide for admission of liability "on a no fault basis". Compensation made under this policy document will be as per the schedule of benefits of Workmen's Compensation Act 1923 (prevalent capital benefits are Rs.200,000 per life), subject to an overall aggregate limit any one accident of Rs.10m and compensation shall be payable to the third party without going to courts.

In view of the scheme being beneficial to the road victims, concerted efforts are expected from all stakeholders to encourage people towards purchasing genuine motor third party covers thereby also contributing towards development of the insurance (including takaful) industry of Pakistan.

9.4.9 Review of Takaful Rules 2005

Recognizing the need for an Islamic alternate to insurance, a regulatory framework in the form of the Takaful Rules was notified in September 2005. To improve insurance penetration level, the Prime Minister, recognizing the tremendous potential and to take full advantage of the available industry's infrastructure, agreed during a presentation on insurance sector policy review in April 2007, to allow conventional insurers to transact takaful business via "window" operation. Further, there have been a number of practical issues, which were inadequately addressed in the existing takaful rules, and have been highlighted by professionals, takaful operators and Shariah scholars from time to time. In this regard, to review the Takaful Rules and develop criteria/guidelines for transaction of takaful business by conventional insurers via window operation, the appointed consultants are working with a committee formed by the Commission. The recommendations were expected to be finalized soon.

9.4.10 Insurance Ombudsman's Office

The Commission extended full assistance in establishing the Insurance Ombudsman's Office in Karachi in 2006, which since then, has been functional and attending to the cases of alleged mal-administration on the part of any insurers in dealing with their respective policyholders.

9.4.11 Mortality Table Being Updated

The mortality table that has been followed since early 1960s by the life insurers is being updated according to the current needs.

INSURANCE DIVISION

9.4.12 Membership of Islamic Financial Services Board

During the year under review, the Commission joined the Islamic Financial Services Board as its member. The Commission is already a member of International Association of Insurance Supervisors & International Organization of Pension Supervisors.

Chapter 10

Legal Department

| | |
|--|-----|
| Performance Review | 112 |
| Corporate Laws Review Commission | 113 |
| Trainings & Workshops | 113 |
| Future Plans | 113 |

Legal Department

OBJECTIVE: To manage the legal affairs of the Commission, provide prompt legal advice to operational divisions and efficiently manage litigation by and against the Commission.

10.1 Operational Structure

10.1.1 Structure

Legal Department (LD) functions as an independent department and operated under direct guidance of the Chairman till the appointment of Mr. S. Tariq Asaf Husain (Commissioner Law). It operates with a mandate to independently manage the legal affairs of the Commission and to provide impartial legal advice to each operational department.

The LD has been divided into the following three wings:

- Advisory and Adjudication
- Litigation
- Legislation and Special Tasks

10.1.1.1 Advisory and Adjudication Wing

Advisory and Adjudication Wing of LD advises the operational divisions and departments on a number of wide-ranging and important issues. Moreover, the Federal Ministries and Departments often refer work of advisory nature to the Commission where they seek the Commission's expertise on issues pertaining to the corporate sector and securities market. The wing is also responsible for vetting and drafting, where requested to do so, of notifications, circulars and notices on behalf of the Commission.

10.1.1.2 Litigation Wing

All litigation matters of the Commission are handled by the Litigation Wing with the necessary support of the operational departments. The wing provides legal advice to external counsel on all potential legal issues including analysis, evaluation and defense. The wing at times represents the Commission before the Courts. For the sake of greater efficiency, the lawyers in Litigation Wing have been assigned work by reference to the operational departments.

10.1.1.3 Legislation Wing

The Commission constantly seeks to update its regulatory framework and fill any gaps or loopholes. Legislation Wing facilitates the operational division/department leading the reform process with the formulation of legislation.

10.1.1.4 Legal Wing (South)

During the year, LD set up a Legal Wing in Karachi that manages all the legal affairs of the Commission for the Southern Region. This has greatly facilitated the legal work in southern region.

10.1.2 Management Team

Ms. Amber Dar, Executive Director, who was head of Legal Department, left the Commission in March 2007 and overall supervision of the department was entrusted to Mr. Muhammad Ashraf Tiwana, Director (Law).

LEGAL DEPARTMENT

Mr. Tiwana is a foreign qualified lawyer and has been working for the Commission for more than five years. He has extensive experience of the laws administered by the Commission as well its regulatory framework. The strength of the Legal Department lies in the diversity of professional experience and academic qualifications of its members.

Subsequent to the close of the year, Mr. S. Tariq Asaf Husain joined the Commission as Commissioner (Law). A lawyer by profession, he brings with him over 35 years of experience. Mr. Husain practiced in the High Courts and Supreme Court of Pakistan and also lectured at the Sindh Muslim Law College, Karachi. Additionally, he worked abroad as a senior counsel with major corporations, managing their legal risks.



Officers of LD with Director Mr. Ashraf Tiwana

10.2 Performance Review

During the year, Legal Department in collaboration with the operational departments drafted a number of laws and rules. The Legal Department played a major role in spearheading and drafting amendments in various laws administered by the Commission. Most of these amendments were proposed as a result of numerous issues identified by the Legal Department while advising the operational departments.

The Legal Department also played a significant role in developing and formulating the Stock Exchanges (Corporatisation, Demutualization and Integration) law and was intensely involved in the stakeholder dialogue conducted by the Commission with the stock exchanges.

During the year under review the Legal Department assisted in the drafting of the following laws and rules:

- Draft Real Estate Investment Trust (REITS) Regulations, 2007
- Draft Stock Exchanges (Corporatisation, Demutualization and Integration) Ordinance, 2007
- Amendment in Schedule 5 to the Companies Ordinance in consultation with the Institute of Chartered Accountants of Pakistan (ICAP)
- Amendments in the Companies Ordinance, 1984
- Amendments in the Securities and Exchange Ordinance, 1969
- Amendments in the Securities and Exchange Commission of Pakistan Act, 1997
- Amendments in the Insurance Ordinance, 2000

At the same time the Legal Department remained actively involved in the exercise to completely revamp the existing laws administered by the Commission. The new laws which are in the process of development are the draft Financial Services Commission Act, the new Securities Act, the draft Futures Act and the draft Companies Act.

LEGAL DEPARTMENT

In addition to the above legislative work, the Legal Department provided numerous opinions to the operational departments on some very complicated issues. It also provided legal support during investigations and inquiries conducted by the operational departments and the ensuing legal proceedings and court cases.

10.3 Corporate Laws Review Commission

The Corporate Laws Review Commission continued to work under the leadership of former Chief Justice of Pakistan Mr. Justice (Retd.) Ajmal Mian. The work on drafting a new Companies law has been outsourced by the Commission on the recommendation of CLRC to an external counsel. The new law is being developed in the light of the Concept Paper approved by CLRC in May 2006.

After the departure of Ms. Amber Dar from the Commission, Mr. Tahir Mehmood Executive Director (Enforcement Department) has been nominated as the Secretary to the CLRC. The Legal Department continues to provide assistance to CLRC and its Secretary on legal issues.

10.4 Trainings and Workshops

In order to maintain and enhance the quality of legal services that they offer, lawyers need to update and develop specialist areas of knowledge and improve their skills. Furthermore, in the face of increasing competition in the market for legal services, lawyers must have sufficient flexibility to adapt to the changing demands of the profession. The lawyers of the Legal Department have attended trainings on various subjects relevant to the needs of the Commission, nationally and internationally. These trainings included:

- Corporate Governance
- Corporate Finance
- Mergers and Acquisitions
- Takaful (Islamic Insurance)
- Islamic Banking and Finance
- Takeovers and Mergers

10.5 Future Plans

The Legal Department plans to undertake the following activities over the coming year:

- Improve management of litigation by making the Court Case Database more inter-active and user-friendly.
- Develop a user-friendly data-base for all legal opinions provided by the Legal Department
- Improve and manage advisory work and to improve the rate of turn-over.
- Formulate and improve internal working processes.
- Develop standardized documents and templates for use by the operational departments.
- Improve the working of the Legal Department and its functions in supporting the operational departments through use of IT solutions.
- Issue an online quarterly Newsletter for the benefit of the operational departments covering legal issues facing the Commission.

LEGAL DEPARTMENT

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Chapter 11 Support Services Division

| | |
|--|-----|
| Human Resources and Training | 115 |
| Finance and Administration | 119 |
| Information Systems and Technology | 120 |

Support Services Division

OBJECTIVE: To facilitate discharge of statutory functions by other Divisions of the Commission by providing the support in the areas of human resources, information technology and finance/accounts.

11.1 Operational Structure

11.1.1 Structure

The Support Services Division (SSD) is responsible for facilitating the core operational divisions of the Commission and ensuring their smooth functioning. It has been organized into the following three departments:

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

11.1.2 Management Team

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

11.2 Human Resources & Training Department-(HR & TRG)

The Department is responsible for facilitating the overall development of the human resources at the Commission. The HR & TRG Department is structured into the following two wings:

- Human Resources Wing
- Training Wing



Officers of HR & TRG in a meeting with ED Mr. Mansur Ahsan

The Year 2007 has been a challenging year for HR & TRG Department. Keeping in view the Commission's objectives and employee expectations, following initiatives were taken during the year:

SUPPORT SERVICES DIVISION

11.2.1 Introduction of Market/Performance-Based New Terms & Conditions for Employment (NTC)

The Commission had been facing problems in retaining its valued employees due to high turnover and failure to attract suitable professionals from the market due to non-competitive and market-alienated compensation system. To address this problem, market-based compensation system and terms of employment were introduced with the salient features as below:

- Employment against the permanent position to continue till the age of 60 years
- Market-based Salary Structure
- Performance-based annual salary reviews
- Bonus (Both Guaranteed & Performance)
- Car Policy (providing cars from employees Grade C and above)
- Eligibility for Provident Fund & Gratuity

Officers were given the option either to opt for NTC or retain the old terms and conditions for employment.

11.2.2 Introduction of New Performance Management System

During the year, a new Performance Management System was implemented in the Commission. The System is based on Management by Objectives (MBO) approach i.e. Goal Setting and developing Key Result Areas (KRAs).

The Exercise on developing KRAs/Goal Setting was carried out with the help of renowned management consultants i.e. M/s Sidat Hyder Morshed Associates (SHMA). The main objective behind this exercise was to develop the KRAs on which the employees can work during the year and subsequently their performance can effectively be judged on the achievements against their KRAs.

11.2.3 Performance and Guaranteed Bonuses

Bonus is one of the salient features of NTC. The officers will be allowed one gross salary as a guaranteed bonus and in addition to this, performance bonus with the approval of the Policy Board will also be allowed subject to the officers' performance; this bonus may vary from 0 to 2 gross salaries.

During the year, for the first time in the Commission, the officers rated excellent, very good and good were given 3 gross salaries, 2.5 gross salaries and 1.5 gross salaries respectively, including guaranteed & performance bonuses.

11.2.4 Management Development Programs (MDPs)

Continuous capacity building of employees has been a regular feature at the Commission. Apart from routine cycle of technical trainings, this year, Training Department focused on developing managerial competencies of employees. Therefore, to equip all officers with hardcore management competencies like leadership, communication skills, conflict resolution, decision making and creative thinking etc. a series of MDPs were initiated by engaging the renowned management trainers from M/s Nivatus & M/s Gulfstone Training.

In this regard, first MDP was conducted in Islamabad from March 26 to March 30, 2007. This will be followed by a series of MDPs until all officers have undergone this training. Apart from this, the employees have been sent on open enrollment trainings in various external institutes (local as well as foreign). In this regard, 38 officers were sent on foreign trainings whereas 111 officers were sent on local trainings.

SUPPORT SERVICES DIVISION

11.2.5 Group Life Insurance (GLI)

Previously, no insurance cover was available to the employees of the Commission against untimely death. Realizing this, the process was initiated for installing a suitable GLI scheme in collaboration with Insurance Division of the Commission. For this purpose, M/s New Jubilee Insurance (NJI) has been selected for providing insurance cover to the employees. The salient features of the scheme include the following:

- All employees of the Commission, including Chairman & Commissioners, would be covered under the scheme;
- In case of normal death, 12 gross salaries will be paid to the beneficiary of the deceased employee, whereas sum assured will be doubled i.e. 24 gross salaries in case of accidental death. The minimum and maximum limits are Rs. 0.2 million and Rs. 3 million respectively.

11.2.6 Health Care Initiatives

To ensure good health of the employees an annual medical check up was arranged during the year. Apart from annual check up, the employees were also given Hepatitis-B vaccination.

11.2.7 Promotions of Officers

During the year a promotion policy was introduced and implemented in the Commission whereby 145 officers were shortlisted for promotion interviews on the basis of their relevant & additional qualifications, seniority and performance appraisals of past three years. These officers were further interviewed by the Commission and 51 officers were promoted.

11.2.8 Promotions of Support Staff

A promotion policy for the support staff was also introduced and implemented during the year. Total number of regular employees in CPS 2 to 4 was 162, out of which 150 were eligible for consideration for promotions as per promotion procedure approved by the Commission. Out of this, 140 employees were found suitable and promoted to the next level w.e.f. July 01, 2007.

11.2.9 Designing & Implementation of Online CV Submission System/Resume Tracking System (RTS)

Recruitment process was also refined by designing & implementing Online CV Submission System & RTS. Previously, the resumes against the advertised posts were invited in hard copies. Therefore, initial screening of resumes was also done manually which was a time consuming and cumbersome process. In order to minimize/reduce the hiring time, a system was designed and developed in collaboration with IS & T Department.

Online CV Submission System is available to the Applicants to create their individual CVs & to apply for/against the posts advertised. Once a candidate has developed the Resume, he/she can login to update his/her profile from time to time. The system is user-friendly and minimizes queries and submission time.

RTS is to facilitate the Recruitment Wing in hiring through the databank of CVs. Through this system the HR and the concerned departments obtain "at-a-glance" info through applicant detail sheets. This system can generate various reports and facilitate in short-listing, scheduling interviews, maintaining score sheets (after interviews) and managing correspondence with the applicants.

SUPPORT SERVICES DIVISION

11.2.10 Revamping Human Resources Information System (HRIS) & Data Centre

HRIS has also been revamped and improved. One of the major achievements of the HR Department is the creation of a Data Center i.e. a dedicated unit within HR Department to continuously manage & update HRIS.

11.2.11 Family Gala/Cricket Match

In order to provide an opportunity of social get-together of employees & their families, a family extravaganza/get together was arranged in April 2007. The event was aimed at bringing fun and entertainment to the employees & their families.

Apart from participation in various activities organized for the overall family entertainment, the event also provided the participants with an opportunity to interact with one another in a casual and friendly environment. The event also included a cricket match played between "SECP Greens" & "SECP Blues" representing all the divisions/departments of SECP.



Singing competition in progress at SECP Family Gala



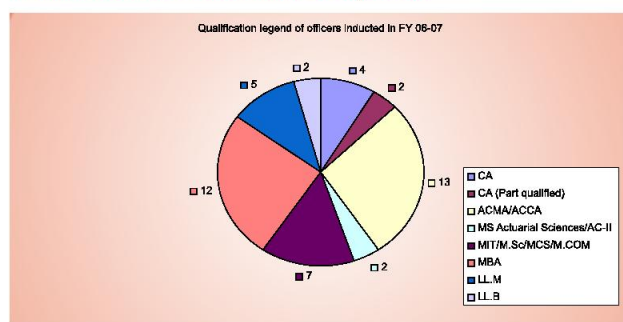
A view of the cricket match between SECP-Blues and SECP-Greens

SUPPORT SERVICES DIVISION

11.2.12 New Joinings

From July 2006 to June 2007 Forty Seven officers joined the Commission. Details in this respect are provided in tables 27, 28 and 29 in statistical section.

Educational Profile of Officers Inducted During the Year



11.3 Finance and Administration Department (F & A)

11.3.1 Finance Department

The Finance Department is responsible for directing and controlling the areas of accounting, financial reporting, treasury management and budgeting. Multi-user accounting software is being used for the maintenance of books of accounts and a sound accounting system is in place. It 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. It follows the relevant requirements of the SECP Act in processing payments, recording transactions, and preparing and maintaining books of accounts. It has two wings which perform the following functions:

- Finance Wing

This wing is responsible for managing payment processes for authorized transactions while ensuring adherence to the established policies and procedures. It also manages profitable & secure investment of surplus funds in accordance with approved policies and liaises with banks to ensure that banking arrangements are adequate.

- Accounts Wing

The Accounts Wing is responsible for the preparation of budget and obtaining approval from the Policy Board. It also monitors actual expenditure against budgeted limits. The wing is also responsible for maintaining proper books of accounts for the Commission. This includes recording of all transactions for

SUPPORT SERVICES DIVISION

receipts and payments, fixed assets, other assets and liabilities while ensuring that internal controls are properly adhered to.

The wing ensures that financial statements are prepared, in accordance with international accounting standards, audited and approved for submission to the Federal Government in a proper and timely manner. It also prepares and distributes monthly management information reports within the Commission and liaises with the external auditors.



Officers of SSD in a meeting with ED Mr. Javed K. Siddiqui

11.3.2 Administration Wing

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, procurement of goods and services 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 Department (IS & T)

IS&T Department provides a range of information technology support services to build the Commission's information infrastructure and create an information technology environment within the Commission. The services extended by IS&T Department range from various management support functions, specialized and MIS applications and managed workstations. Major areas of operations include software systems and database maintenance & development; website & intranet engineering and maintenance; LAN/WAN connectivity and central services; managed workstation services; hardware maintenance services and training in IT products and services. Majority of the Commission's projects that are either under implementation or forthcoming including the e-Services, Documents Scanning and Archiving, Disaster Recovery Centre, ERP, Insurance Industry Regulatory System, Market Monitoring and Surveillance System and Data Warehousing are driven by the initiative taken by the IS&T Department.

11.4.1 Structure

The department has been informally divided into Systems, Network and Security, Disaster Recovery, Software and Databases and Data Warehousing wings.



Officers of IS & TD in a meeting with ED Mr. Anshad Javed Minhas

11.4.2 Performance Review

IS&T Department has evolved from provision of simple workstation management function to one of facilitation for all core functions of the Commission. While working with the divisions of the Commission IS&T Department ensures development and implementation of tailor-made systems according to the requirements. IS&T has initiated various initiatives in-house and with outside support, forging numerous long-term partnerships in the process.

During the year, IS&T Department successfully re-registered for the ISO9001:2000 certification. The ISO certifying body awarded the IS & T Department with a three year certificate, with only one Surveillance Audit required annually.

11.4.3 IT Projects and Initiatives

Some of the major projects being carried out by IS&T department are as follows:

- **eServices Project:**

Funded by E-Government Directorate, eServices project is one of the major projects which will enable all regulated companies to electronically submit statutory documents online using a pre-defined format through a software application provided by the Commission. The system on implantation will reduce undue paper work and improve business processes.

eServices has completed the initiation, elaboration, and implementation phases, and is currently in the final stages of the deployment phase. eServices will soon be available for incorporation of companies and filing of returns.

- **Market Surveillance System (MSS)**

Rapid increase in stock market capitalization, daily transactions volume and turnover necessitates the automation of the market surveillance function undertaken by the Commission. The Commission has planned to procure an off the shelf Market Surveillance Solution for reliable market data and online alert generation to monitor market activity and ensure efficiency and transparency.

IS&T Department in collaboration with the Market Surveillance Wing of the SMD has carried out extensive research on the various MSS available in the international market. The Commission selected a solution. A proof of

concept (POC) was successfully carried out by the IS&T, MSW and the vendor. Based on the result of the POC the Commission has awarded the contract for the MSS.

- **Scanning and Archiving Project**

The Commission intends to scan and archive all documents located at its head office in Islamabad and all the CROs. The scanned documents along with metadata will be archived in a repository of a content management system. The documents will be archived in such a way that they can be accessed by the authorized employee, department, and/or division based on the metadata. The project is currently under implementation at the Islamabad and Karachi CROs.

- **Data Warehouse Project**

The Commission has envisaged designing a data warehouse for analysis and strategic decision making that will enable dynamic reports generation for effective regulations. The data warehouse will enable use of data to support decision-making and appropriate dissemination of information to the stakeholders.

For the purpose of procuring data warehouse solution, the PC1 prepared by the Department is under review for approval with EGD.

- **Database Clustering and Storage Consolidation Project**

Database Clustering and Storage project simplifying and optimizing existing end-to-end infrastructures (including servers, storage, databases, applications, networks and systems management processes) has been successfully implemented. The project aims to reduce recurring costs and complexities and provide a more rational, stable foundation for growth and new solution deployment.

- **Physical Access Control System**

Physical Access Controls Systems 'Pegasus' has successfully been deployed at the Commission's head office this year. These proximity card readers in combination with door locks provide physical access to only authorized person(s). It is also used for attendance of the employees of the commission and stopping un-authorized entries to the offices.

- **Video Conferencing System (VCS)**

IS&T Department has successfully deployed and tested a VCS between Karachi, Lahore and Head Office to be used for online meetings and discussions.

- **Disaster Recovery Center (DRC)**

Establishment of DRC is still under process of evaluation. Two options are under consideration. Option one, to have the Commission's own DRC was deliberated with the meteorological departments and international surveys were studied to predict the expected disasters. The second option, to partially outsource the DRC where network side infrastructure and location will be provided by the outsourcer and the server side hardware and application will be provided by the Commission, is also being evaluated to reach a final decision.

11.4.4 Development Activities

During the year, lots of activities have been carried out by IS&T. Various applications were developed in-house and a few were outsourced. Number of software packages have been developed and implemented, while a host of such solutions are being supported by and maintained by IS&T. Brief profiles of these systems are provided below:

SUPPORT SERVICES DIVISION

- **SECToday**

SECToday is a knowledge sharing tool for all the employees of the Commission in the form of an Intranet web portal which enable the internal stakeholders interact with the various IT applications and also acts as an information platform having day to day news and updates.

- **Resume Submission System (RSS)**

This system is used for receiving online resumes and provides automated short-listing procedure. A total of 70 jobs were advertised on the system and approximately 8000 resumes and applications were received through the RSS.

- **Legal Opinion Management System**

This system maintains record of legal opinions and replies to legal queries sent by all divisions to outside parties. This helps in tracking opinions given by the commission on different occasions and in ensuring consistency of opinions on an issue.

- **Brokers and Agents Registration system**

This system keeps track of the applications sent by the brokers and the status of the brokers.

- **Purchase Management System**

The system is used by the Finance and Administration Department for the purchase function.

- **Inventory Management System**

It is one of the key systems of ERP and addresses the difficulty previously encountered in manually handling data and maintenance of inventory records.

- **Transport Management System**

The system is used by the Administration department to keep track of the Commission vehicles insurance, maintenance, fuel consumption, and allocation and de-allocation of the vehicles to Commission employees.

- **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 of these.

- **Human Resource Information System**

This is an initiative to share information relating to human resource matters with the employees of the Commission.

- **Intranet for Legal Department**

An intranet portal for Legal Department has also been developed which is information rich and integrated with the applications developed Legal Department.

SUPPORT SERVICES DIVISION

- **Enforcement and Monitoring System**

The enforcement and monitoring system provides for initial review of accounts, decision support feature, submission of returns and detailed examination of accounts etc.

- **Beneficial Ownership Management System (BOMS)**

The BOMS is used to record details of Shareholders based on returns received through Form A and u/s 222. It also matches data received through the two types of returns to ensure correctness and compliance.

- **Company Registration and Compliance System (CRCS)**

CRCS is a comprehensive database of registered companies. The database is used by the Commission to ensure the compliance with the Companies Ordinance.

- **Website Management**

Inline with the Commission emphasis on dissemination of information to facilitate the general public, the website is updated on a daily basis by IS&T.

11.4.5 Infrastructure Enhancement

IS&T Department continuously work to enhance the existing infrastructure to ensure accommodation for all existing and future processing needs. Following activities have been carried out for this purpose:

- **Server Consolidation, Optimization and Enhancement**

Server consolidation has been carried out to ensure, centralization, data integrity, application integration and reduced infrastructure costs. RAM memory has been increased beside other enhancements for the purpose.

- **Network & System Management**

To monitor the servers and network equipment and to get quick alarms against any malfunction or unavailability of the monitored device, CA, a renowned network & system management suite of applications Uni Center, Report Manager & Spectrum has recently been deployed.

- **Communication link enhancement**

To facilitate communication between CROs, head office and other outside sources, the communication link between various sites has been enhanced to ensure speedy processing and access without delay.

- **Network Security Enhancements**

An elaborate Intrusion Detection and Prevention System has been commissioned to ensure protection of data.

- **Comprehensive Tape Library Solution**

To ensure data security and disaster recovery, comprehensive tape library solution has been implemented to ensure proper backups with least taxing on the network system.

SUPPORT SERVICES DIVISION

- **Uninterrupted Power Supply**

UPS (Uninterrupted Power Supply) have been provided to ensure scalability and power crisis management.

- **Disaster Recovery Center Bandwidth Enhancement**

Increased bandwidth ensures 24 X 7 connectivity with disaster recovery center and provides quick response to any data requests.

- **Help Desk**

Help desk for complaint receipt, management and tracking system ensures minimum response time to all requests.

11.4.6 Future Plans

IS&T Department has developed an IT Strategic plan that covers the future IS&T Department's activities and lists all the merits of development / procurement of such systems. Some of the projects planned for next fiscal year are outlined as mentioned below:

- **ERP**

It has been proposed to obtain a commercial off the shelf ERP solution for Finance, HR and Payroll that will be customized before implementation.

- **Capacity Building & Training Needs**

IS&T Department 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.

- **Establishment of Data Center**

A data Center will be established to provide efficient services for IS&T operations.

- **Disaster Recovery Center Update**

The Disaster Recovery Center is being evaluated for the two options presented to the management. The Commission has suggested doing homework on a 3rd option which states 'Opt for a completely outsourced model of the DR Center'. All services and resources will be acquired from a company having its own established Data Center according to international standards.

11.4.7 Infrastructure Enhancement

- **Network Expansion**

With the growing number of headcounts in different departments and the CROs; there is an urgent need to expand the network infrastructure to cope up with the needs of the organization and its different segments. IS&T have already planned and budgeted LAN expansion; working paper has already been prepared and approval is awaited to proceed further.

SUPPORT SERVICES DIVISION

- **Information Security certification 'ISO 27001' at IS & T**

IS&T Department has planned to get Information Security standards "ISO 27001" certification during the coming year. This will enable it to provide secure and always available services internally as well as to its customers. One of the local consultants will be approached to proceed ahead towards this certification.

- **Network Vulnerability Assessment Tools**

For this purpose, IS&T intends to acquire network vulnerability assessment tools to ensure security management, network fault management and troubleshooting infrastructure. It will help analyzing utilization information and will also help in ascertaining the future requirements.

- **Information Security Audit**

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

- **Scaling-up of SRO/CRO Infrastructure**

Scaling-up of servers and network deployment is in progress to fulfil current and future requirements of the CROs/SROs in terms of growing number of employees, running applications, traffic among CROs and head office. Network expansion is also in progress to provide better network services.

- **Scaling-up of Head Office Infrastructure**

With the current renovation in progress, and to cope-up with current and future requirements, there is a need to scale-up servers and network infrastructure at the headoffice. New servers and core network devices have already been planned to be purchased for this purpose.

Statistical Section

List Of Tables

| | |
|-----------|--|
| Table 1: | Disposal of Complaints, Petitions and Appeals |
| Table 2: | Detail of Complaints Handled |
| Table 3: | Number and Type of Companies |
| Table 4: | Province-Wise Distribution of Companies |
| Table 5: | Capitalisation Breakdown |
| Table 6: | Sectoral Distribution (Limited by Shares) |
| Table 7: | Associations Not For Profit |
| Table 8: | Foreign Companies |
| Table 9: | Newly Registered Companies |
| Table 10: | List of Cases Approved under the Companies Ordinance and Rules and Regulations made thereunder |
| Table 11: | KSE Performance at a Glance |
| Table 12: | Public Issues during FY 2006-07 |
| Table 13: | TFC Offerings during 2006-2007 |
| Table 14: | Public announcements of offer during 2006-2007 |
| Table 15: | Complaints Received and Disposed of at Each Stock Exchange |
| Table 16: | Assets Managed under Different Categories of Mutual Funds |
| Table 17: | Key Statistics of Closed-end Mutual Funds |
| Table 18: | Key Statistics of Open-end Mutual Funds |
| Table 19: | New Licenses Issued by NBFC |
| Table 20: | Renewal of Licenses of NBFCs |
| Table 21: | List of NBFCs not having valid license |
| Table 22: | Orders Issued to NBFCs After Show-Cause Notices |
| Table 23: | Show Cause Notices Issued by Modaraba Wing |
| Table 24: | Orders Issued by Modaraba Wing |
| Table 25: | Break up of insurance sector in Pakistan |
| Table 26: | Gross Written Premium |
| Table 27: | Month wise joinings of Officers |
| Table 28: | Age Profile of Officers Inducted |
| Table 29: | Educational Profile of Officers Inducted |

Table 1: Disposal of Complaints, Petitions and Appeals (1 July 2006 – 30 June 2007)

| Receipts | Brought Forward | Received | Total | Disposed Off | Outstanding |
|---------------------|-----------------|----------|-------|--------------|-------------|
| Complaints | 189 | 1232 | 1421 | 1262 | 159 |
| Ministry references | 0 | 130 | 130 | 130 | 0 |
| Enquiries | 0 | 468 | 468 | 468 | 0 |

Table 2: Detail of Complaints Handled

| Nature of Complaints | Brought Forward | Received | Total | Disposed Off | Outstanding |
|--|-----------------|-------------|-------------|--------------|-------------|
| Non-transfer/receipt and issue of duplicate shares | 26 | 495 | 521 | 507 | 14 |
| Wrong deduction of Zakat | 1 | 7 | 8 | 8 | 0 |
| Short-payment, non-receipt of dividend | 13 | 143 | 156 | 150 | 6 |
| Non-receipt of annual and half yearly accounts | 1 | 24 | 25 | 25 | 0 |
| Complaints against company management | 0 | 34 | 34 | 31 | 3 |
| Disputes in share holdings | 0 | 24 | 24 | 18 | 6 |
| Complaints against brokers | 130 | 111 | 241 | 130 | 111 |
| Miscellaneous | 18 | 394 | 412 | 393 | 19 |
| Total | 189 | 1232 | 1421 | 1262 | 159 |

Table 3: Number and Type of Companies

| Type of Companies | Total companies as on 30.06.2006 | Total companies as on 30.06.2007 |
|---|----------------------------------|----------------------------------|
| Companies limited by shares | | |
| Public listed (only those which are registered under the Companies Ordinance, 1984) | 613 | 612 |
| Public unlisted | 2,178 | 2,211 |
| Private | 45,928 | 46,548 |
| SMCs | 436 | 610 |
| Total companies limited by shares | 49,155 | 49,981 |
| Companies limited by guarantee u/s 43 | 62 | 68 |
| Not-for-profit associations u/s 42 | 341 | 356 |
| Trade Organizations | 181 | 202 |
| Foreign companies | 653 | 710 |
| Unlimited companies | 5 | 5 |
| Companies under section 503 of the Companies Ordinance, 1984 | 4 | 5 |
| Total Companies | 50,401 | 51,327 |

Table 4: Province-Wise Distribution of Total Companies

| Province / Territory | Number of companies | Percentage Share (%) |
|-----------------------------|---------------------|----------------------|
| Punjab | 23,174 | 46 |
| Sindh | 17,362 | 34 |
| NWFP | 3,275 | 6 |
| Baluchistan | 702 | 1 |
| Islamabad Capital Territory | 6,814 | 13 |
| Total Companies | 51,327 | - |

Table 5: Capitalization Breakdown

| Paid up Capital (Rs.) | Listed companies | Unlisted public companies | Private companies | SMC s | Total | % age |
|------------------------------|------------------|---------------------------|-------------------|-------|--------|-------|
| Up to 100,000 | 1 | 448 | 20,607 | 373 | 21,429 | 42.87 |
| 100,001 to 500,000 | 1 | 343 | 7,037 | 100 | 7,481 | 14.97 |
| 500,001 to 1,000,000 | 0 | 105 | 4,566 | 59 | 4,730 | 9.46 |
| 1,000,001 to 10,000,000 | 34 | 343 | 10,804 | 48 | 11,229 | 22.47 |
| 10,000,001 to 100,000,000 | 226 | 662 | 3,168 | 28 | 4,084 | 8.17 |
| 100,000,001 to 500,000,000 | 236 | 242 | 319 | 2 | 799 | 1.60 |
| 500,000,001 to 1,000,000,000 | 45 | 32 | 29 | 0 | 106 | 0.21 |
| 1,000,000,001 to above | 69 | 36 | 18 | 0 | 123 | 0.25 |

Table 6: Sectoral Distribution (Limited by Shares)

| Sectors | Total Companies |
|--------------------------------|-----------------|
| Auto & Allied | 408 |
| Broadcasting and Telecasting | 42 |
| Cable & Electrical Goods | 404 |
| Carpets and Rugs | 22 |
| Cement | 72 |
| Chemical | 1,113 |
| Pharmaceuticals | 737 |
| Communications | 2,166 |
| Construction | 1,436 |
| Corporate Agricultural Farming | 288 |
| Education | 223 |
| Engineering | 1,615 |
| Finance and Banking | 743 |
| Food and Beverages | 1,596 |
| Footware | 24 |
| Fuel and Energy | 882 |
| Ginning | 219 |
| Glass and Ceramics | 287 |
| Healthcare | 72 |
| Information Technology | 1,794 |
| Insurance | 112 |
| Jute | 17 |
| Leather and Tanneries | 386 |
| Lodging | 170 |
| Mining and Quarrying | 142 |
| Paper and Board | 496 |
| Power Generation | 361 |
| Real estate Development | 996 |
| Services | 3,776 |
| Sport Goods | 53 |
| Steel and Allied | 19 |
| Sugar and Allied | 155 |
| Synthetic and Rayon | 114 |
| Textile | 4,221 |
| Tobacco | 118 |
| Tourism | 2,403 |
| Trading | 2,320 |
| Transport | 698 |
| Vanaspati and Allied | 369 |
| Wood and Wood Products | 93 |
| Other Sectors | 18,819 |
| Total | 49,981 |

Table 7: Associations Not For Profit

| Object | No of Associations |
|-----------------|--------------------|
| Commerce | 217 |
| Art | 3 |
| Science | 11 |
| Religion | 18 |
| Sports | 23 |
| Social Services | 151 |
| Charity | 59 |
| Others | 76 |
| Total | 558 |

Table 8: Foreign Companies

| Country | Number of Companies |
|--------------------------|---------------------|
| USA | 133 |
| UK | 102 |
| France | 23 |
| Germany | 24 |
| China | 21 |
| Japan | 34 |
| Australia | 12 |
| Middle East Countries | 48 |
| Far Eastern Countries | 72 |
| Other European Countries | 122 |
| Other Asian Countries | 55 |
| Other Countries | 64 |
| Total | 710 |

Table 9: Newly Registered Companies

| Type of Companies | FY 2005-06 | FY 2006-07 |
|--|--------------|--------------|
| Companies limited by shares: | | |
| Public unlisted companies | 93 | 99 |
| Private | 5,768 | 4,318 |
| SMCs | 198 | 178 |
| Total companies limited by shares | 6,059 | 4,595 |
| Associations not-for-profit u/s 42 | 56 | 41 |
| Companies limited by guarantee u/s 43 | 6 | 0 |
| Trade Organizations | 4 | 3 |
| Foreign companies | 61 | 64 |
| Total Newly Registered Companies | 6,186 | 4,703 |

Table 10: List of Cases Approved Under The Companies Ordinance and Rules Regulations Made Thereunder

| Sr. # | Relevant Section of the Ordinance. | Nature of Approval/Permission Sought | Cases Disposed (No.) |
|-------|--|--|----------------------|
| 1 | Section 21 | Amendment in memorandum and articles of association | 174 |
| 2 | Section 24(3) | Extension in time for filing the documents on confirmation of alteration | 1 |
| 3 | Section 37 | Availability of name | 12,236 |
| 4 | Section 39 | Change of name | 100 |
| 5 | Section 42 | Grant of license to associations | 45 |
| 6 | Section 44 | Conversion of public companies into private companies | 16 |
| 7 | Section 86 | Further issue of capital | 2 |
| 8 | Sections 121,129,132 | Registration, modification and satisfaction of charge | 6,296 |
| 9 | Section 131 | Condonation of delay in submission of particulars of charge | 20 |
| 10 | Section 146 | Commencement of business certificate | 42 |
| 11 | Sections 158 | Extension in period for holding of AGM s by non-listed public and private companies | 63 |
| 12 | Section 159(7) | Holding of an EOGM at a shorter notice | 2 |
| 13 | Section 170 | Calling of overdue meetings | 9 |
| 14 | Section 195 | Grant of loans to directors of non-listed public companies | 3 |
| 15 | Section 233 | Preparation of first accounts exceeding 12 months | 5 |
| 16 | Section 237 | Exemption for Consolidation of Accounts | 5 |
| 17 | Section 252 | Appointment of Auditors | 4 |
| 18 | Section 258 | Approval of appointment of cost auditor | 51 |
| 19 | Section 439(9) | Restoration of name of company to the register of companies | 12 |
| 20 | Section 466(6) | Issue of certified copies of documents | 29,319 |
| 21 | Rule 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 |
| 22 | Rule 5 of the Companies Share Capital (Variation in Rights and Privileges) Rules, 2000 | | 3 |
| 23 | Regulation 18 of the Companies (Registration Offices) Regulations 2003. | Inspection of records maintained with CROs | 13,508 |
| 24 | | Miscellaneous (minor activities, providing information to different agencies and shareholders, etc.) | 32,030 |
| | | Total | 93,947 |

Table 11: KSE Performance at a Glance

| | 30 June 2006 | 29 June 2007 | % Change | High FY 2007 | Low FY 2007 |
|---|--|---|----------|-----------------------------|-----------------------------|
| KSE-100 Index | 9,981.41 | 13,772.46 | 38% | 13,772.46 (29 June 2007) | 9,504.47 (10 July 2006) |
| Market Capitalization (Rs. in billion) | 2,801.18 | 4,019.42 | 43% | 4,019.42 (29 June 2007) | 2,678.051 (10 July 2006) |
| Turnover (Shares in million) | 321.1 (Daily average for the year) | 367.96 (Daily average for the year) | | 792.28 (11 May 2007) | 39.21 (3 January 2007) |

Table 12: Public Issues during FY 2006-07

| S.No. | Name of Company | Sector | Total Capital Raised | Pre-IPO (Rs. in million) | IPO (Rs. in million) | Premium per share (Rs.) | Capital offered with premium (Rs. in million) | *Subscriptions received (Rs. in million) | Over/under (subscribed) % |
|-------|--|---------------------------------|-------------------------|-----------------------------|-------------------------|-------------------------------|---|--|---------------------------------|
| 1 | SMF Leasing Ltd. | Leasing Companies | 320,000 | 220,000 | 100,000 | 1.00 | 110,000 | 10,741 | -90.24% |
| 2 | Allied Rural Modariba | Modariba | 300,000 | 150,000 | 150,000 | 0.00 | 150,000 | 161,485 | 7.66% |
| 3 | Asif Fertilizer Ltd. (Offer for Sale of Shares) | Inv Bank/ Inv Co's Sec. Co's | 200,000 | 200,000 | 50,000 | 90.000 | 500,000 | 1,321,250 | 164.23% |
| 4 | Feroz Text Manufacturing Modariba | Modariba | 142,857 | 42,857 | 100,000 | 0.000 | 100,000 | 2,975 | -97.03% |
| 5 | Hira Textile Mills Ltd. | Textile | 715,520 | 465,520 | 250,000 | 2.500 | 312,500 | 97,769 | -87.91% |
| 6 | Oil & Gas Development Co. Ltd. (Zaid Offer for Sale of Shares) | Oil & Gas Expl. Companies | 43,009,284 | 43,009,284 | 215,050 | 100.000 | 2,365,550 | 3,268,779 | 38.15% |
| 7 | Pace (Pakistan) Ltd. | Misc. | 1,879,532 | 1,485,477 | 392,855 | 4.000 | 549,937 | 1,085,607 | 97.02% |
| 8 | J's ABAMCO Ltd. (Offer for Sale) | Inv Bank/ Inv Co's Sec. Co's | 1,000,000 | 1,000,000 | 200,000 | 55.000 | 1,300,000 | 2,532,332 | 94.79% |
| 9 | Pakistan Cement Co. Ltd. (Offer for Sale) | Cement | 1,600,000 | 1,500,000 | 100,000 | 4.000 | 140,000 | 328,271 | 278.03% |
| 10 | Pervet Almond Securities Ltd. | Inv Bank/ Inv Co's Sec. Co's | 600,000 | 350,000 | 250,000 | 0.000 | 250,000 | 543,275 | 117.31% |
| 11 | Shaan Periodic Ltd. | Chemicals | 551,000 | 301,000 | 250,000 | 0.000 | 250,000 | 1,428,475 | 471.79% |
| | TOTAL | @ | 7,387,799 | 5,714,854 | 2,497,965 | | 6,838,847 | 10,920,359 | |

* Excluding total paid-up capital of Oil & Gas Development Co. Ltd. which was already listed

Table 13: TFC Offerings During 2006-2007

(Rs. In million)

| S.No. | Name of Company | Subscription Date | Total Amount Offered | | Subscription Received | | Green Share Option | | Amount Retained |
|--------------|---|-------------------|----------------------|------------------|-----------------------|------------------|--------------------|-------------------|----------------------|
| | | | Pre-IPO | IPO | Total | Pre-IPO | IPO | Total | |
| 1 | First International Investment Bank Ltd. | 10-11 July 2006 | 375,000 | 125,000 | 500,000 | 375,000 | 210,145 | 585,145 | N/A |
| 2 | United Bank Limited (3rd Issue) | 07-08 Sep. 2006 | 1,500,000 | 500,000 | 2,000,000 | 1,500,000 | 28,395 | 1,500,000 | N/A |
| 3 | Jalangi Siddiqui & Co. Ltd. | 20-21 Nov. 2006 | 750,000 | 250,000 | 1,000,000 | 750,000 | 563,690 | 1,113,690 | up to Rs.100 million |
| 4 | WorldCall Telecom Ltd. | 27-28 Nov. 2006 | 250,000 | 100,000 | 350,000 | 250,000 | 38,655 | 288,655 | N/A |
| 5 | Allied Bank Ltd. | 05-06 Dec. 2006 | 1,875,000 | 625,000 | 2,500,000 | 1,875,000 | 90,395 | 1,965,395 | N/A |
| 6 | Financial Receivables Securitization Co. Ltd. | 16-17 Jan 2007 | | | | | | | 2,500,000 |
| | Class-A | | 393,000 | 157,000 | 550,000 | 393,000 | 197,660 | 590,660 | N/A |
| | Class-B | | 107,900 | 43,000 | 150,900 | 107,000 | 45,200 | 152,200 | N/A |
| 7 | Bank Al Habib Ltd. (2nd Issue) | 06-07 Feb 2007 | 1,125,000 | 375,000 | 1,500,000 | 1,125,000 | 721,890 | 1,846,890 | N/A |
| 8 | Esorte Investment Bank Ltd. | 13-15 March 2007 | 375,000 | 125,000 | 500,000 | 375,000 | 620,065 | 995,065 | N/A |
| 9 | Oris Leasing Pakistan Ltd. | 23-25 May 2007 | 200,000 | 300,000 | 500,000 | 200,000 | 777,415 | 2,777,415 | N/A |
| TOTAL | | | 8,750,000 | 2,800,000 | 11,550,000 | 8,750,000 | 3,653,510 | 11,775,115 | 11,650,000 |

Table 14: Public Announcements of Offer during 2006 - 2007

| S.# | Name of Target Company | Date of Public Announcement of offer | Name of Acquirer(s) | Number of shares already held by the Acquirer | | Number of shares to be acquired under agreement | | Public Offer Size | |
|-----|---------------------------------------|--------------------------------------|---|---|--------|---|--------|-------------------|--------|
| | | | | Shares | (%) | Shares | (%) | Shares | (%) |
| 1 | Jalangi Siddiqui Capital Markets Ltd. | 17-Aug-06 | Global Investment House K.S.C. Kuwait | 202,300 | 1.47% | 10,150,000 | 75.00% | 138,000 | 1.00% |
| 2 | Altam Energy Ltd. | 4-Sep-06 | Seacon Engineering Ltd. | Nil | Nil | 12,259,875 | 55.47% | 1,105,000 | 5.00% |
| 3 | Union Bank Ltd. | 12-Aug-06 | Standard Chartered Bank (Pakistan) Ltd. | Nil | Nil | 273,923,699 | 80.86% | 64,826,810 | 19.14% |
| 4 | International Housing Finance Ltd. | 9-Dec-06 | Mr. Nair Ali Shah Bukhari | 11,200,000 | 24.89% | 28,935,427 | 64.30% | 450,000 | 1.00% |
| 5 | Bawany Sugar Mills Ltd. | 16-Oct-06 | Mr. Dewan M. Younis Purosh | Nil | Nil | 4,449,541 | 50.99% | 4,275,050 | 49.01% |
| 6 | Al-Araf Sugar Mills Limited | 16-Oct-06 | Dewan Mustaq Group Bank A.C. Zurich | Nil | Nil | 9,163,000 | 62.47% | 5,503,666 | 37.53% |
| 7 | Metropolitan Bank Ltd. | 3-Nov-06 | Mr. Ined Omar Volan | 92,500,000 | 30.78% | Nil | Nil | 60,755,000 | 20.22% |
| 8 | JOV & Co. Ltd. | 24-Nov-06 | Mr. Ined Omar Volan | 13,500,000 | 45.00% | Nil | Nil | 1,800,000 | 1.00% |
| | | | Qureshi | 2,995,500 | 37.44% | | | | |
| | | | (ii) Mrs. Noorain Qureshi | 65,600 | 0.82% | | | | |
| 9 | Asia Insurance Co. Ltd. | 7-Dec-06 | (iii) Mr. Idris ul Haq Qureshi | 628,000 | 7.85% | 3,940,638 | 49.25% | 59,362 | 0.75% |
| | | | (iv) Ms. Shira Iftikhar Qureshi | 800 | 0.01% | | | | |
| | | | (v) Aamir ul Haq Qureshi | 310,400 | 3.88% | | | | |
| 10 | Lahore Tobacco Co. Ltd. | 15-Feb-07 | (i) Philip Morris International B.V. | 12,316,062 | 20.00% | | | | |
| | | | (ii) FTR Folding S.A. | 12,316,061 | 20.00% | 30,917,999 | 50.21% | 6,030,276 | 9.79% |
| 11 | Dandot Cement Co. Ltd. | 2-Feb-07 | Three Star Cement (Pvt) Ltd. | 5,760,000 | 8.50% | 52,103,001 | 76.80% | 678,400 | 1.00% |

STATISTICAL SECTION

| | | | | | | | | |
|----|---|-----------|---|-----|----------------------|---------|--------------------|--------|
| 12 | Irfanq General Insurance Co. Ltd. | 22-Feb-07 | M. Sharif Associates (Association of Persons) | Nil | 998,600 | 99.86% | 1,400 | 0.14% |
| 13 | Chesant Commercial Bank Ltd. (S-66(1) cases) | 6-Mar-07 | SOMBA Financial Group, Saudi Arabia | Nil | 600,000,000 | 216.60% | 2,769,517 | 1.00% |
| 14 | Prime Commercial Bank Ltd. | 9-Mar-07 | ABN Amro Bank N.Y. | Nil | 255,855,148 | 93.40% | 18,082,021 | 6.60% |
| 15 | Network Leasing Corp. Ltd. | 24-May-07 | KASB Capital Ltd. | Nil | 9,457,359 | 53.90% | 875,000 | 5.00% |
| 16 | Pakistan Industrial Credit & Investment Corp. (PICIC) | 29-May-07 | NTB Bank Ltd. | Nil | 232,552,320 | 56.00% | 58,138,076 | 14.00% |
| | Total | | | | 1,524,886,557 | | 225,487,578 | |
| | | | | | | | 151,794,423 | |

STATISTICAL SECTION

Table 15: Complaints Received and Disposed Of at Each Stock Exchange (1 July 2006 – 30 June 2007)

| | KSE | LSE | ISE | Total |
|--|-----|-----|-----|-------|
| No. of complaints brought forward from previous year | 49 | 35 | 46 | 130 |
| New complaints/claims received | 65 | 32 | 14 | 111 |
| Total complaints dealt with by ICW | 114 | 67 | 60 | 241 |
| <i>Break up of total complaints dealt with by ICW</i> | | | | |
| Complaints disposed off (1 July 2006 – 30 June 2007) | 55 | 21 | 54 | 130 |
| Complaints under examination with the ICW and under process at Stock Exchanges as on 1 July 2007 | 59 | 46 | 6 | 111 |

Table 16: Assets Managed Under Different Categories of Mutual Funds (Assets in Million Rs.)

| S.No | Nature of Mutual Funds | Closed End Funds | | Open End Funds | | Grand Total | |
|------|-------------------------|------------------|------------------|----------------|-------------------|-------------|-------------------|
| | | No. | Total Assets | No. | Total Assets | No. | Total Assets |
| 1 | Asset Allocation Funds | 1 | 4,252.93 | 4 | 4,085.87 | 5 | 8,338.80 |
| 2 | Balanced Funds | 3 | 3,870.33 | 3 | 6,570.41 | 6 | 10,440.74 |
| 3 | Capital Protected Funds | 1 | 113.40 | 2 | 2,661.28 | 3 | 2,774.68 |
| 4 | Equity Funds | 10 | 39,775.92 | 7 | 114,027.64 | 17 | 153,803.56 |
| 5 | Fund of Funds | 1 | 666.99 | 1 | 145.52 | 2 | 812.51 |
| 6 | Income Funds | - | - | 16 | 92,725.18 | 16 | 92,725.18 |
| 7 | Index Funds | 1 | 1,074.07 | 3 | 2,041.58 | 4 | 3,115.66 |
| 8 | Islamic Funds | 2 | 3,929.97 | 6 | 10,612.91 | 8 | 14,542.88 |
| 9 | Money Market Funds | - | - | 4 | 20,748.26 | 4 | 20,748.26 |
| 10 | Sector Funds | 2 | 2,171.44 | - | - | 2 | 2,171.44 |
| | TOTAL | 21 | 55,855.05 | 46 | 253,618.65 | 67 | 309,473.69 |

Table 17: Key Statistics of Closed-end Mutual Funds (Rs. in million)

| S# | Fund | Nature | NAV | Market Value | Paid Up Capital | Net Assets | Total Assets | Dividend 2006 | Dividend 2007 |
|-------|------------------------------------|-------------------|-------|--------------|-----------------|------------|--------------|------------------|---------------|
| 1 | AKD Index Tracker Fund | Index | 14.09 | 13.70 | 750.00 | 1,056.84 | 1,074.07 | 4.5% | 6% |
| 2 | Al-Meezan Mutual Fund | Islamic | 18.55 | 13.20 | 1,196.00 | 2,218.59 | 2,276.51 | 30% | 25%, 15% B |
| 3 | Alam Stocks Fund Ltd. | Equity | 10.20 | 4.70 | 900.00 | 911.62 | 967.05 | - | 5% |
| 4 | Atlas Fund of Fund | Fund of Funds | 12.56 | 9.20 | 325.00 | 449.12 | 666.99 | 15% | 16% |
| 5 | Bafa Principal Guaranteed Fund I | Capital Protected | 10.79 | 9.00 | 100.00 | 107.90 | 113.60 | - | - |
| 6 | BSIS Balanced Fund | Balanced | 18.13 | 12.90 | 1,185.75 | 2,149.75 | 2,376.42 | 30% | 25% |
| 7 | First Capital Mutual Fund Ltd. | Equity | 12.68 | 10.10 | 300.00 | 380.41 | 420.07 | 10%, 100% B | 10% |
| 8 | First Dawood Mutual Fund | Equity | 13.34 | 9.00 | 580.75 | 774.86 | 799.24 | 10%, 15% B | 10% |
| 9 | Golden Arrow Stock Fund | Equity | 10.63 | 8.30 | 614.54 | 1,306.72 | 1,348.39 | 30%, 75% B | 15%, 10% B |
| 10 | Meezan Balanced Fund | Islamic | 13.32 | 10.25 | 1,200.00 | 1,598.50 | 1,653.46 | 20% | 16% |
| 11 | NAMCO Balanced Fund | Balanced | 11.36 | 9.75 | 1,000.00 | 1,136.17 | 1,234.00 | - | - |
| 12 | Pak Oman Advantage Fund | Secur | 10.26 | 10.45 | 1,000.00 | 1,026.45 | 1,036.90 | - | 2.15% |
| 13 | Pakistani Premier Fund | Equity | 19.71 | 15.00 | 1,476.56 | 2,910.35 | 2,970.15 | 40% | 25%, 15% B |
| 14 | Pakistan Strategic Allocation Fund | Asset Allocation | 13.60 | 10.50 | 3,000.00 | 4,080.99 | 4,252.93 | 25% | 25% |
| 15 | PFICG Energy Fund | Secur | 10.77 | 7.50 | 1,000.00 | 1,076.71 | 1,134.53 | - | 7.50% |
| 16 | PFICG Growth Fund | Equity | 47.59 | 33.80 | 2,835.00 | 13,492.26 | 14,193.22 | 70%, 20% B, 5% B | 62.50% |
| 17 | PFICG Investment Fund | Equity | 22.09 | 13.25 | 2,841.25 | 6,275.69 | 6,655.25 | 50% | 37.50% |
| 18 | Safeway Mutual Fund Ltd. | Equity | 20.75 | 12.00 | 544.50 | 1,129.43 | 1,148.75 | - | 20% |
| 19 | UTP Growth Fund | Equity | 18.29 | 14.00 | 3,188.05 | 5,911.83 | 6,070.03 | 35% | 35% |
| 20 | UTP Prime Capital Fund | Equity | 18.37 | 14.00 | 3,188.05 | 5,911.83 | 6,070.03 | 35% | 35% |
| 21 | WFI Balanced Fund | Balanced | 11.14 | 9.90 | 200.00 | 222.88 | 259.92 | - | - |
| Total | | | | | | 52,348.13 | 55,855.05 | - | 10.5% |

Table 18: Key Statistics of Open-end Mutual Funds (Rs. in million)

| S# | Fund | Nature of Fund | NAV | Offer Price | Redemption Price | Net Assets | Total Assets | Dividend 2006 | Dividend 2007 |
|----|----------------------------------|------------------|--------|-------------|------------------|------------|--------------|---------------|---------------|
| 1 | AKD Income Fund | Income | 51.76 | 52.30 | 51.78 | 2,388.95 | 2,924.72 | - | 31.9% B |
| 2 | AKD Opportunity Fund | Asset Allocation | 62.70 | 64.70 | 62.75 | 992.40 | 1,030.45 | - | 11.25% |
| 3 | Alfiah GPF Income With. Fund | Income | 26.17 | 30.19 | 30.19 | 1,993.74 | 2,003.31 | - | - |
| 4 | Alfiah GPF Value Fund | Asset Allocation | 142.89 | 144.16 | 142.89 | 1,157.96 | 1,077.16 | 10% B | 10% B |
| 5 | Alfiah Income Fund | Income | 112.44 | 112.44 | 112.44 | 4,650.40 | 5,656.09 | 12% B | 11.6% B |
| 6 | AMZ Plus Stock Fund | Equity | 121.53 | 127.25 | 121.54 | 650.40 | 8,656.09 | 13% | 6% B |
| 7 | Atlas Income Fund | Income | 111.71 | 111.71 | 111.71 | 8,522.30 | 8,653.12 | 4.50% | 11.00% |
| 8 | Atlas Islamic Fund | Islamic | 544.80 | 557.00 | 544.67 | 3,871.27 | 3,860.22 | 11.5% B | 10% B |
| 9 | Atlas Stock Market Fund | Equity | 517.61 | 522.97 | 510.02 | 512.40 | 542.70 | - | 3% B |
| 10 | Atlas Islamic Market Fund | Islamic | 695.85 | 709.76 | 695.84 | 1,522.07 | 1,577.36 | 25% B | 20% B |
| 11 | Crescent Dragon Fund | Equity | 163.57 | 161.58 | 158.10 | 1,343.54 | 1,515.55 | 15% B | 38% B |
| 12 | Dawood Money Market Fund | Money Market | 111.25 | 115.27 | 104.73 | 3,139.14 | 3,165.17 | 11.5% B | 10.85% B |
| 13 | Faisal Balanced Growth Fund | Balanced | 121.48 | 123.71 | 120.97 | 1,148.49 | 1,177.68 | 26% B | 18% B |
| 14 | Faisal Income & Growth Fund | Income | 112.83 | 113.70 | 112.56 | 2,552.92 | 2,563.30 | 5.5% B | 12.75% B |
| 15 | Faisal Savings Growth Fund | Money Market | 101.38 | 101.11 | 101.11 | 1,132.78 | 1,142.86 | - | 1.5% B |
| 16 | FIRST Habib Income Fund | Income | 101.59 | 102.70 | 101.67 | 1,045.61 | 1,051.47 | - | 2.64% B |
| 17 | FIRST Income Fund | Income | 102.68 | 102.73 | 102.73 | 5,054.27 | 5,087.63 | - | 1.94% B |
| 18 | FIRST Liquid Fund | Income | 102.01 | 102.01 | 102.01 | 1,677.13 | 1,737.39 | - | 10.71% B |
| 19 | RASB Liquid Fund | Money Market | 111.02 | 110.97 | 110.97 | 5,891.52 | 6,992.47 | 9.8% B | 10.71% B |
| 20 | RASB Stock Market Fund | Index | 59.64 | 61.09 | 59.56 | 411.36 | 416.31 | - | 9.74% B |
| 21 | MCB Dynamic Cash Fund | Income | 103.38 | 103.38 | 103.38 | 9,143.72 | 9,190.60 | - | 3.38% B |
| 22 | MCB Dynamic Stock Fund | Equity | 131.96 | 135.34 | 131.96 | 958.77 | 1,105.28 | - | 20%, 5% B |
| 23 | Meezan Islamic Fund | Islamic | 75.49 | 77.46 | 75.72 | 3,122.87 | 3,238.62 | 35% B | 26.61% B |
| 24 | Meezan Islamic Income Fund | Islamic | 52.20 | 52.43 | 52.17 | 3,679.29 | 3,775.26 | - | 4.4% B |
| 25 | Meezan Bank Pakistan Sov. Fund | Income | 48.97 | 49.02 | 48.97 | 791.85 | 793.26 | 6.2% B | 3.58% B |
| 26 | NAFA Cash Fund | Income | 11.07 | 11.07 | 11.07 | 18,254.20 | 18,413.74 | 1.9% B | 10.5% B |
| 27 | NAFA Multi Asset Fund | Balanced | 12.89 | 13.28 | 12.90 | 1,248.81 | 1,262.94 | N/A | 16.4% B |
| 28 | NAFA Stock Fund | Equity | 14.35 | 14.78 | 14.35 | 1,460.59 | 1,627.56 | N/A | 22.6% B |
| 29 | National Investment (Unit) Trust | Equity | 62.38 | 63.45 | 61.25 | 106,123.28 | 104,224.30 | 58% | 62% |
| 30 | Pakistan Capital Market Fund | Asset Allocation | 14.59 | 14.98 | 14.61 | 1,106.90 | 1,118.30 | 30% B | 26.07% B |

| | | | | | | | | | |
|--------------|-------------------------------------|-------------------|----------|----------|----------|-------------------|-------------------|-------|-----------|
| 31 | Pakistan Income Fund | Income | 55.44 | 56.19 | 55.43 | 9,138.68 | 9,189.32 | 10% | 10,498.8B |
| 32 | Pakistan Int'l Element Islamic Fund | Islamic | 58.78 | 60.41 | 58.90 | 1,194.57 | 1,113.57 | - | 18,333.8B |
| 33 | Pakistan Stock Market Fund | Equity | 109.08 | 111.96 | 109.16 | 3,266.37 | 3,290.99 | 69% | 29,669.8B |
| 34 | Reliance Income Fund | Income | 53.59 | 54.19 | 53.38 | 1,113.79 | 1,236.19 | - | 6,533.8B |
| 35 | Unit Trust of Pakistan | Balance | 9,388.77 | 9,670.43 | 9,388.77 | 4,032.78 | 4,129.79 | 48% | 40,284.8B |
| 36 | United Composite Islamic Fund | Islamic | 114.89 | 117.73 | 114.86 | 955.56 | 958.22 | - | 10,358.8B |
| 37 | United Growth & Income Fund | Income | 111.60 | 113.23 | 111.56 | 11,020.97 | 12,703.58 | 9.25% | 11,579.8B |
| 38 | United Money Market Fund | Money Market | 110.24 | 111.20 | 109.10 | 9,403.39 | 9,447.76 | 10% | 10,08% |
| 39 | United Stock Advantage Fund | Index | 289.73 | 332.97 | 295.73 | 1,000.41 | 1,257.01 | - | 20,769.8B |
| 40 | UTIP A-30+ Fund | Index | 61.49 | 62.70 | 61.47 | 340.38 | 368.26 | 0.5% | 12.50% |
| 41 | UTIP AARF | Asset Allocation | 69.32 | 71.41 | 69.32 | 792.33 | 839.97 | 65% | 26,724.8B |
| 42 | UTIP Capital Protected Fund | Capital Protected | 104.63 | 107.81 | 99.43 | 1,102.79 | 1,122.06 | - | 4.5% |
| 43 | UTIP Capital Protected Fund II | Capital Protected | 100.22 | 102.22 | 95.20 | 1,509.23 | 1,539.22 | - | 0.2% |
| 44 | UTIP Fund of Funds | Fund of Funds | 58.74 | 59.92 | 58.73 | 144.88 | 145.52 | 8% | 15.1% |
| 45 | UTIP Income Fund | Income | 558.62 | 556.11 | 545.19 | 7,604.94 | 7,663.05 | 12.1% | 10,669.8B |
| 46 | UTIP Islamic Fund | Islamic | 727.07 | 748.89 | 727.07 | 921.83 | 984.35 | 37.5% | 29,73% |
| Total | | | | | | 245,734.52 | 253,618.65 | | |

Table 19: Licenses Issued to New NBFCs

| | | |
|---|--|---|
| 1 | Pak-Oman Asset Management Company Limited | Investment Advisory License/Asset Management Services License |
| 2 | Pakistan Private Equity Management Limited | Venture Capital |
| 3 | Arif Habib Securities Limited | Investment Banking |
| 4 | KASB Capital Limited | Investment Banking |
| 5 | Innovative Housing Finance Limited | Housing Finance |
| 6 | Trust Investment Bank Limited | Housing Finance |
| 7 | Asani Leasing Limited | Housing Finance |

Table 20: Renewal of Licenses

| S.No | Name of Company |
|---|---|
| Asset Management Services | |
| 1 | National Investment Trust Limited |
| 2 | AMZ Asset Management Limited |
| 3 | Habib Asset Management Limited |
| 4 | MCB Asset Management Company Limited |
| Investment Advisory Services | |
| 1 | WE Investment Management Limited |
| 2 | Asian Capital Management Limited |
| 3 | Safeway Fund Limited |
| Investment Advisory/ Asset Management Services | |
| 1 | National Fullerton Asset Management Limited |
| 2 | AKD Investment Management Limited |
| 3 | Al Meezan Investment Management Limited |
| 4 | Al Palah GHP Investment Management Limited |
| 5 | BMA Asset Management Limited |
| 6 | PICIC Asset Management Company Limited |
| 7 | Atlas Asset Management Limited |
| 8 | IGI Funds Limited |
| 9 | UBL Asset Management |
| 10 | JS Investments Limited |
| 11 | Arif Habib Investment Management Limited |
| 12 | UBL Fund Managers |
| 13 | KASB Funds Limited |
| 14 | Faysal Asset Management Limited |
| 15 | Dawood Capital Management Limited |
| 16 | Askari Investment Management Limited |
| Investment Finance Services | |
| 1 | Security Investment Bank Limited |
| 2 | First Credit and Investment Bank Limited |
| 3 | AlMeezan Investment Management Company |
| 4 | Orix Investment Bank Limited |
| 5 | JS ABAMCO Limited |
| Housing Finance Services | |
| 1 | Asian Housing Finance Limited |
| 2 | International Housing Finance Limited |

STATISTICAL SECTION

| Leasing | |
|---|--------------------------------------|
| 1 | Sigma Leasing Corporation Limited |
| 2 | Askari Leasing Limited |
| 3 | Natover Lease Limited |
| 4 | Pak-Gulf Leasing Company Limited |
| 5 | Grays Leasing Limited |
| 6 | Crescent Leasing Corporation Limited |
| 7 | Union Leasing Limited |
| 8 | Orix Leasing Pakistan Limited |
| 9 | SME Leasing Limited |
| Leasing/Investment Finance Services | |
| 1 | IGI Investment Bank Limited |
| 2 | Innovative Housing Finance Limited |
| Leasing/Discount Services | |
| 1 | NBP Capital Discount Limited |
| 2 | Trust Investment Bank |
| Leasing/Housing Finance Services | |
| 1 | Security Leasing Corporation Limited |
| 2 | Saudi Pak Leasing Company Limited |
| Leasing/ Housing Finance/Investment Finance | |
| 1 | First Dawood Investment Bank Limited |
| 2 | Escorts Investment Bank Limited |
| Venture Capital Investment | |
| 1 | TMT Venture Limited |

STATISTICAL SECTION

Table 21: List of NBFCs not having valid license (as on June 30, 2007)

| S.No | Name of NBFC | Last available information |
|---------------------------|------------------------------|---|
| Investment Banks | | |
| 1 | Asset Investment Bank Ltd. | The Honourable Lahore High Court has ordered for its merger with Invest Cap in 2007. The company is in process of compliance with the legal formalities. |
| 2 | Islamic Investment Bank Ltd. | IIBL is under winding up at PHC since June 10, 2005 |
| 3 | Prudential Investment Bank | SECP filed a petition for winding up of PIBL in the Lahore High Court Rawalpindi Bench in June 2003. The winding up proceedings were underway when PIBL filed a revival plan in the court in May 2005. The honorable court vides its order dated September 15, 2005 dismissed the winding up proceedings and accepted the said revival plan. The Commission filed intra-court appeal against the dismissal of winding up, the proceedings of which are in progress. |
| 4 | Franklin Investment Bank | Under winding up since 2000. |
| Leasing Companies | | |
| 1 | CALCORP | Merger case with International Multi Leasing is pending at Supreme Court of Pakistan. |
| 2 | English Leasing Co. Ltd. | Licence Cancelled in 2001 due to deficient equity. Winding up petition is being filed with the court. |
| 3 | InterAsia Leasing Co. Ltd. | Licence cancelled in December 2005. Voluntary Winding up |
| 4 | International Multi Leasing | Merger case with CALCORP is pending at Supreme Court of Pakistan |
| 5 | Lease Pak Limited | De Listed Un Licensed |
| 6 | National Asset Leasing Corp. | Licence Cancelled in April 4, 2002, In the process of filing winding -up proceedings |
| 7 | Universal Leasing Co. Ltd. | NOC for merger with Crescent Leasing has been granted by the Commission in July 2007 |
| 8 | Asian Leasing Corp. Ltd. | Winding up is pending adjudication before the Hon'ble Lahore High Court, Lahore since 2005 |
| 9 | PICL | Leasing licence issued in March 2006 has not been renewed due to various violations of law including deficient equity |
| 10 | Dadabhoy Leasing Company | Official liquidator has been appointed by the SHC since November 17, 1999 |
| Discount Houses | | |
| 01 | Prudential Discount & GH | Under winding up since 2003 |
| 02 | Speedway Fondmetal | Under winding up (309/305) since March 14, 2002 |
| Housing Finance Companies | | |
| 01 | Citibank Housing Fin. Ltd. | Under Voluntary winding up Since 2004. |

STATISTICAL SECTION

Table 22: Orders Issued to NBFCs After Show-Cause Notices

| |
|--|
| • Order in the matter of Show cause notice under section 265 of the Companies Ordinance, 1984 in respect of M/s Investec Mutual Fund Limited was issued on October 18, 2006 |
| • Order in the matter of Show cause notice under section 265 of the Companies Ordinance, 1984 in respect of M/s Dominion Stocks Fund Limited was issued on October 18, 2006 |
| • Order in the matter of Show cause notice under the proviso to sub-section (1) of section 282M of the Companies Ordinance, 1984 read with sub-section (1) of Section 282J thereof along with its proviso in respect of Safeway Fund Limited and its directors for violation of Rule 7(2)(c) of the NBFC Rules was issued on October 19, 2006 |
| • Order in the matter of Show cause notice under Rule 63 of the NBFC Rules for violation of Rule 49(3) and Rule 49(4) of the NBFC Rules in respect of Asian Stocks Fund Limited was issued on September 29, 2006 |
| • Order in the matter of Show cause notice under the proviso to sub-section (1) of section 282M of the Companies Ordinance, 1984 read with sub-section (1) of Section 282J thereof along with its proviso in respect of Asian Capital Management Limited and its directors for violation of Rule 7(2)(c) of the NBFC Rules was issued on October 19, 2006 |
| • Show Cause Notice No: SC/NBFC/R/CSIBL/2006, dated August 29, 2006 issued to Mr. Anjum M. Saleem, CEO of Crescent Standard Investment Bank Limited under section 282 E of the Companies Ordinance, 1984 for his removal as CEO. |
| • Show Cause Notice No: SC/NBFC/R/CSIBL/2006, dated August 29, 2006 issued to the CEO Anjum Saleem and the Board of Directors of Crescent Standard Investment Bank Limited including Mr. Manzur-ul-Haq, Mr. Ifrikhar Soomro, Mr. Shahid Anwar, Mr. Razzak Raine, Mr. Makhmoor-e-Ahmed Goheer and Mr. Khurram Mazhar Karim under section 282 F read with sub-section (1) of the proviso to sub-section (2) of section 282 E of the Companies Ordinance, 1984 FOR supersession of BODs |
| • Order in the matter of Show cause notice under Rule 63 of the NBFC Rules for violation of Rule 49(3) and Rule 49(4) of the NBFC Rules in respect of Safeway Mutual Fund Limited was issued on September 29, 2006 |

STATISTICAL SECTION

Table 23: Show Cause Notices Issued by Modaraba Wing

• Show Cause notice under section 19, 20, and 32 of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (the Modaraba Ordinance) were issued to the following Modaraba Companies

| | | |
|-----|--|---|
| 1. | First Modaraba Management (Pvt.) Limited | 26.07.2006 |
| 2. | Clip Modaraba Management (Pvt.) Limited | 26.07.2006 |
| 3. | Guardian Modaraba Management (Pvt.) Limited | 26.07.2006 |
| 4. | Equity International (Pvt.) Limited | 26.07.2006 |
| 5. | Engro Management Services (Pvt.) Limited | 26.07.2006 |
| 6. | D.G. Modaraba Management (Pvt.) Limited | 26.07.2006 |
| 7. | Vanguard Capital Management (Pvt.) Limited | 26.07.2006 |
| 8. | United Bank Financial Services (Pvt.) Limited | 26.07.2006 |
| 9. | Premier Financial Services (Pvt.) Limited | 28.08.2006 |
| 10. | Crescent Standard Business Management (Pvt.) Limited | 27.09.2006 |
| 11. | Trust Management Services (Pvt.) Limited | 10.10.2006, 19.10.2006 & 27.04.2007 |
| 12. | IBL Modaraba Management (Pvt.) Limited | 24.11.2006 |
| 13. | Global Econo Trade (Pvt.) Limited | 08.03.2007 |
| 14. | Royal Management Services (Pvt.) Limited | 10.05.2007 |
| 15. | Prudential Capital Management Limited | 02.05.2007 |
| 16. | ARKS Modaraba Management Company (Pvt.) Limited | 21.06.2007 |
| 17. | Masood Modaraba Management (Pvt.) Limited | 25.06.2007 |
| 18. | Excel Services (Pvt.) Limited | 25.06.2007 |
| 19. | Muslim Commercial Financial Services (Pvt.) Limited | 25.06.2007 |
| 20. | Dewan Mushtaq Business & Financial Management (Pvt.) Limited | 26.06.2007 |

Table 24: Orders Issued by Modaraba Wing

• Orders for de-registration of Modaraba Companies under section 19 and 32 of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (the Modaraba Ordinance) were recorded/issued to the following Modaraba Companies:

| | | |
|-----|---|------------|
| 1. | Constellation Management Company (Pvt.) Limited | 04.07.2006 |
| 2. | Engro Management Services (Pvt.) Ltd. | 31.08.2006 |
| 3. | DG Modaraba Management (Pvt.) Ltd. | 31.08.2006 |
| 4. | NIT Management Services (Private) Limited | 11.09.2006 |
| 5. | Premier Financial Services (Pvt.) Limited | 10.10.2006 |
| 6. | Equity International (Pvt.) Ltd. | 03.11.2006 |
| 7. | Guardian Modaraba Management (Pvt.) Ltd. | 21.11.2006 |
| 8. | Clip Modaraba Management (Pvt.) Ltd. | 22.11.2006 |
| 9. | Trust Management Services (Pvt.) Limited | 22.11.2006 |
| 10. | IBL Modaraba Management (Pvt.) Limited | 11.01.2007 |
| 11. | Financial Link Limited | 19.01.2007 |
| 12. | Greaves Modaraba Services (Pvt.) Limited | 25.06.2007 |

STATISTICAL SECTION

- The registration of Financial Link Limited was cancelled on 19.01.2007 and in its place Providence Modaraba Limited was appointed to manage Crescent Standard Modaraba.
- Warning issued:

| | | |
|----|--|------------|
| 1. | Providence Modaraba Limited | 28.08.2006 |
| 2. | Trust Management Services (Pvt.) Limited | 21.02.2007 |

Table 25: Break up of Insurance Sector in Pakistan

| Description | Number of Companies | |
|------------------------|---------------------|-----------|
| | 30-Jun-06 | 30-Jun-07 |
| Life | | |
| Public | 1 | 1 |
| Private | 4 | 4 |
| Sub Total | 5 | 5 |
| Non-Life | | |
| Public | 1 | 1 |
| Private | 45 | 46 |
| Sub Total | 46 | 47 |
| General Takaful | | |
| Public | - | - |
| Private | 1 | 2 |
| Sub Total | 1 | 2 |
| Grand Total | 52 | 54 |
| Reinsurance | | |
| Public | 1 | 1 |

STATISTICAL SECTION

Table 26: Gross Written Premium (Rs. In million)

| Description | | 2005 Growth | 2006 | % |
|-----------------|-------------|----------------|--------|---------|
| Life | Public | 13,899 | 16,077 | 15.7 |
| | Private | 4,653 | 6,497 | 39.6 |
| | Sub Total | 18,552 | 22,574 | 21.7 |
| Non-Life | Public | 4,249 | 4,453 | 4.8 |
| | Private | 23,478 | 29,033 | 23.7 |
| | Sub Total | 27,727 | 33,486 | 20.8 |
| General Takaful | Public | - | - | - |
| | Private | 5 | 129 | 2,480.0 |
| | Sub Total | 5 | 129 | 2,480.0 |
| | Grand Total | 46,284 | 56,189 | 21.4 |

Table 27: Month-wise joinings of Officers in 2006-07

| Month/Category of Emp. | Officers |
|------------------------|----------|
| July 2006 | 01 |
| August 2006 | 01 |
| September 2006 | 02 |
| October 2006 | 01 |
| November 2006 | 05 |
| December 2006 | 03 |
| January 2007 | 05 |
| February 2007 | 08 |
| March 2007 | 01 |
| April 2007 | 02 |
| May 2007 | 08 |
| June 2007 | 10 |
| Total | 47 |

STATISTICAL SECTION

Table 28: Age Profile of Officers inducted in 2006-07

| AGE RANGE (in Yrs.) | Number of Employees |
|---------------------|---------------------|
| 25-27 | 10 |
| 28-30 | 17 |
| 31-33 | 11 |
| 34-36 | 7 |
| 37-47 | 2 |
| Total | 47 |

Table 29: Educational Profile of Officers Inducted in 2006-07

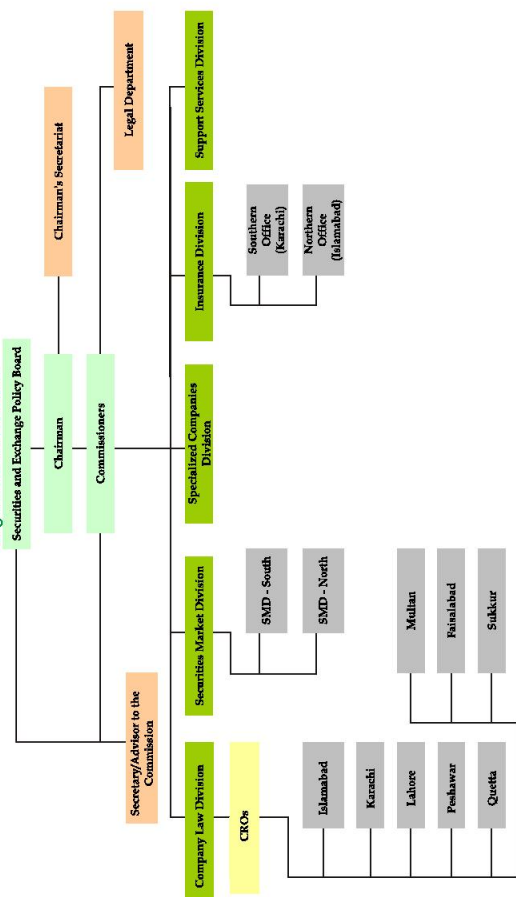
| Qualifications | Number of officers |
|-----------------------------|--------------------|
| CA | 04 |
| CA (Part Qualified) | 02 |
| ACMA/ACCA | 13 |
| MS Actuarial Sciences/AC-II | 02 |
| MIT/M.Sc/MCS/M.COM | 07 |
| MBA | 12 |
| LL.M | 05 |
| LL.B | 02 |
| Total | 47 |

Annexures

| | |
|-------------|---|
| Annexure A: | Organisational Structure |
| Annexure B: | Laws Administered By the Commission |
| Annexure C: | List of MOUs Signed by the Commission With Other Bodies for Mutual Cooperation |
| Annexure D: | List of Publications |
| Annexure E: | List of Model Memoranda |
| Annexure F: | Management Directory |

Annexure A

Organisational Structure



Annexure B

Laws Administered by the Commission

S# Statutes

- 2002**
- 1 Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Ordinance, 2002
- 2000**
- 1 Insurance Ordinance, 2000
- 1997**
- 1 Securities and Exchange Commission of Pakistan Act, 1997
 - 2 Central Depositories Act, 1997
- 1984**
- 1 Companies Ordinance, 1984
- 1980**
- 1 Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980
- 1974**
- 1 Companies (Appointment of Legal Advisors) Act 1974
- 1969**
- 1 Securities and Exchange Ordinance, 1969

S# Rles/Regulations/Guidelines

- 2005**
- 1 Takaful Rules, 2005
 - 2 Clearing Houses (Regulation and Registration) Rules, 2005
 - 3 Voluntary Pension System Rules, 2005
 - 4 Commodity Exchange and Futures Contracts Rules, 2005
- 2004**
- 1 Prudential Regulations for NBFCs, 2004
 - 2 Prudential Regulations for Modaraba, 2004
 - 3 Margin Trading Rules, 2004
- 2003**
- 1 Single Member (Private Limited Companies) Rules, 2003
 - 2 Securities and Exchange Commission of Pakistan (Appellate Bench Procedure) Rules, 2003.

- 3 Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003
- 4 Companies (Registration Offices) Regulations, 2003

2002

- 1 Federal Government Insurance Rules, 2002
- 2 Securities and Exchange Commission (Insurance) Rules, 2002
- 3 Guidelines for Issue of TFCs, 2002
- 4 Guidelines for Issue of Commercial Papers, 2002
- 5 Guidelines for Preparation of Prospectus, 2002
- 6 Code of Corporate Governance for Listed Companies, 2002

2001

- 1 Balloters, Transfer Agents and Underwriters Rules, 2001
- 2 Brokers and Agents Registration Rules, 2001
- 3 Public Companies (Employees Stock Option Scheme) Rules, 2001
- 4 Stock Exchange Members (Inspection of Books and Record) Rules, 2001
- 5 Members' Agents and Traders (Eligibility Standards) Rules, 2001
- 6 Venture Capital Companies and Venture Capital Funds Rules, 2001

2000

- 1 Companies' Share Capital (Variation in Rights and Privileges) Rules, 2000

1999

- 1 Companies (Asset-Backed Securitization) Rules, 1999
- 2 Companies (Buy-Back of Shares) Rules, 1999
- 3 Companies (Rehabilitation of Sick Industrial Units) Rules, 1999

1998

- 1 The Companies (Audit of Cost Accounts) Rules, 1998

1996

- 1 Central Depository Companies (Establishment and Regulation) Rules, 1996
- 2 Companies (Issue of Capital) Rules, 1996
- 3 Employees' Provident Fund (Investment In Listed Securities) Rules, 1996

1995

- 1 Credit Rating Companies Rules, 1995

1987

- 1 Companies (Invitation and Acceptance of Deposits) Rules, 1987

1985

- 1 Companies (General Provisions and Forms) Rules, 1985

1981

- 1 Modaraba Companies and Modaraba Rules, 1981

1975

- 1 Companies (Appointment of Legal Advisors) Rules, 1975

1971

- 1 Securities and Exchange Rules, 1971

Annexure C

List of MOUs Signed by the Commission with Other Bodies for Mutual Cooperation

1. MoU between SECP and Australian Securities and Investments Commission
2. MoU between South Asian Securities Regulators to which SECP is a signatory
3. MoU between SECP and IFC on launching corporate governance project
4. MoU between SECP and Maldives Monetary Authority
5. MoU between SECP and Securities and Exchange Commission of Sri Lanka
6. MoU between SECP and Royal Monetary Authority of Bhutan
7. MoU between SECP and State Bank of Pakistan

Annexure D

List of Publications

1. Company Mortgages and Charges
2. Company Name Availability Guide
3. Conversion of Status of Companies
4. Directors and Secretaries Guide
5. Foreign Companies Guide
6. Guide on Accounts and Accounting Reference Dates
7. Guidebook on Further Issue of Shares otherwise than Rights
8. Guidebook on Issue of Preference Shares
9. Insurance Guide
10. Investigation into the affairs of a company
11. Investors Guide (Vol. -I)
12. Investors Guide (Vol. -II)
13. Investor's Guide for Lodging Complaints
14. Licencing & Registration of Association Not-For-Profit
15. Modaraba Promoters' Guide
16. Promoters' Guide
17. Promoters' Guide (in Arabic)
18. Promoters' Guide (in Chinese)
19. Promoters' Guide (in Urdu)
20. Shareholders' Rights
21. Single Member Company Guide (in Urdu)
22. Winding up and Dissolution of Companies

Annexure E

List of Model Memoranda of Association for Different Sectors

- (a) Auto and Allied
- (b) Banking Company
- (c) Chemical and Pharmaceutical
- (d) Communication and IT Related
- (e) Construction
- (f) Engineering
- (g) Exchange Company-A
- (h) Exchange Company-B
- (i) Fuel and Energy
- (j) Insurance
- (k) Leather
- (l) Leasing
- (m) Textile
 - (m1) Textile Composite
 - (m2) Textile Spinning
 - (m3) Textile Allied and Others
- (n) Transportation
- (o) Association/Foundation
- (p) Miscellaneous
- (q) Security Services
- (r) Power Generation
- (s) Synthetics and Rayon
- (t) Jute
- (u) Fishing
- (v) Live Stock
- (w) Poultry & Breeding
- (x) Venture Capital Business

Single Page Memorandum and Articles of Association

- (a) Memorandum of Association
- (b) Articles of Association

Articles of Association of a Private Limited Company

Articles of Association

Annexure F

Management Directory, Head Office Islamabad

| Name | Designation | Email Address | Telephone |
|--|---|--------------------------------|----------------|
| Razi-ur-Rehman 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 & SMD) | rashid.malik@secp.gov.pk | +92-51-9222771 |
| S. Tariq A. Hussain | Commissioner (Law) | tariq.hussain@secp.gov.pk | +92-51-9224670 |
| Abdul Rehman Qureshi | Advisor/Secretary to the Commission | rehman.qureshi@secp.gov.pk | +92-51-9202692 |
| Dr. Mumtaz A. Hashmi | Advisor (Insurance) | mumtaz.hashmi@secp.gov.pk | +92-51-9209985 |
| Arshad Javed Minhas | Executive Director (IS&I) | arshad.minhas@secp.gov.pk | +92-51-9212103 |
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Abbreviations And Acronyms

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ADB: Asian Development Bank
 AGM: Annual General Meeting
 AML: Anti-money Laundering
 APG: Asia/Pacific Group on Money Laundering
 CA: Chartered Accountant
 CDC: Central Depository Company of Pakistan Limited
 CDS: Central Depository System
 CEO: Chief Executive Officer
 CEW: Commodity Exchange Wing
 CFS: Continuous Funding System
 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 or C.O. 1984
 CNIC: Computerized National Identity Card
 COT: Carry-over Trading
 CRO: Company Registration Office
 CS: Chairman's Secretariat
 DFI: Development Finance Institution
 EGD: Electronic Government Directorate
 EMD: Enforcement and Monitoring Department
 FBR: Federal Board of Revenue
 FIU: Fraud Investigation Unit
 FMGP: Financial (non-bank) Markets and Governance Program
 FRU: Foreign Relations Unit
 FY: Financial Year
 HRIS: Human Resources Information System
 IAI: International Association of Insurance Supervisors
 IAP: Insurance Association of Pakistan
 IAS: International Accounting Standard
 ICAP: Institute of Chartered Accountants of Pakistan
 ICMAI: Institute of Cost and Management Accountants of Pakistan
 ICW: Investor's Complaints Wing
 ID: Insurance Division
 IDF: Institutional Development Fund
 IFRS: International Financial Reporting Standards
 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
 KSE: Karachi Stock Exchange
 KSE-30 Index: Karachi Stock Exchange 30 Shares Index
 KSE-100 Index: Karachi Stock Exchange 100 Shares Index

LD: Legal Department
 LSE: Lahore Stock Exchange
 MIS: Management Information System
 M&I: Monitoring and Inspection
 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
 NAV: Net Asset Value
 NBFC: Non-banking Finance Company
 NBFC-D: 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
 NICOP: National Identity Card for Overseas Pakistanis
 NIT: National Investment Trust
 NTCs: New Terms & Conditions (of employment)
 OTC: Over-the-counter
 PE & VCF: Private Equity and Venture Capital Fund
 Policy Board: Securities and Exchange Policy Board
 PRCL: Pakistan Reinsurance Company Limited
 PSPD: Professional Services and Policy Division
 RD: Registration Department
 REIT: Real Estate Investment Trust
 RTS: Resume Tracking System
 SAFA: South Asian Federation of Accountants
 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
 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