CONTENTS

Vision

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

Mission

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

Strategy

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

Chairman's Review

Mr. Salman Ali Shaikh
Chairman SECP

It gives me great pleasure in presenting the tenth annual report of the Securities and Exchange Commission of Pakistan (the Commission) which covers the period from July 1, 2008 to June 30, 2009.

The period under review witnessed unprecedented economic turbulence globally. Pakistan was no exception. Pakistani stock market capitalization eroded by Rs.833.99 billion (USD 10.96 billion) from July, 2008 to August, 2008 and we had to take some tough decisions, to save the capital markets from total collapse. With hindsight, some of these decisions could have been avoided. The decline in the capital markets was further impacted by a slump in foreign portfolio investment coupled with a severe liquidity squeeze in the local market. The market witnessed a heavy net outflow of the foreign capital amounting to USD 426.05 million during the fiscal year.

In view of the continuous declining trend in the markets during the year 2008, the Commission and the stock exchanges took various temporary stabilization measures including revision in circuit breakers, ban on short and blank sales, special clearing sessions, etc. However, a unique situation was witnessed in our markets when the stock exchanges placed a floor on the closing prices of securities on August 27, 2008. This floor remained in place till December 15, 2008. Similarly, mutual funds which peaked at Rs. 406 billion in April, 2008 declined to Rs. 227 billion on June 30, 2009. The liquidity crunch and panic in the market was not limited to equity instruments but impacted the debt market as well. The trading of TFC's or corporate bonds which already had low volumes almost dried up, and this hindered the determination of the fair value of debt instruments. Subsequently, some of the bond issuers defaulted on their payments exacerbating the situation. Consequently, the Commission prescribed new valuation methodology and provisioning criteria for debt securities held by Collective Investment Schemes. The objective was to bring consistency across the mutual funds industry and adequate provisioning for the loss in the value of debt securities. In order to ensure transparency and enhance investors' confidence, the Commission devised comprehensive categorization criteria for mutual funds. While this reduced the flexibility of the fund management companies / fund managers, it greatly enhanced investor protection by minimizing the chances of any ambiguity in terms of the underlying prospectus/trust deed.

In February, 2009 stakeholders requested relaxation in IAS-39 owing to prevalent market conditions, closure of stock markets for four months and very low trading volumes on the stock markets which had made the application of impairment tests (i.e., arriving at fair valuation) difficult. Consequently, Commission granted relaxation in the accounting treatment for equity securities held by the companies under the head "Available for Sale" as required under International Accounting Standard "Financial Instrument" Recognition and Measurement (IAS 39). This relaxation is valid till December 31, 2009 and was granted after detailed meetings were held by SECP with all the relevant institutions and bodies including ICAP, SBP and major accounting firms.

The Commission has always tried to maintain a delicate balance between the twin objectives of regulation/enforcement and market development. Over the past few years, the Commission has displayed a strong flair for innovation and creative solutions. Towards this end, the Commission has used a comprehensive approach to regulate the financial sector while at the same time trying to protect the interests of shareholders, facilitate companies (in terms of both time and money) through e-services, investor education and innovation through the introduction of new products like REITs, private equity and venture capital and the holding company concept.

The Commission derives the bulk of its revenues from key market segments. During the past fiscal year there was a sharp slowdown in all the main areas that we regulate. Consequently, there was 15% decline in income and our post tax surplus declined from Rs. 532 million to Rs. 246 million. We have taken several cost control measures. However, many of them (e.g., a ban on mid career hiring, a total ban on foreign training, etc.) are not sustainable, as they would severely impact the capacity building of SECP.

Improving the Regulatory Framework

The Commission is constantly examining the global trends and studying international best practices. This knowledge base is the foundation for revising and modernizing our regulatory framework. Some of the key initiatives taken in this area are as follows:

- During the financial year under review, the Commission made considerable progress towards the promulgation of the Stock Exchanges (Corporatization, Demutualization and Integration) Act, 2009. This very important law has now been passed by the National Assembly and has been sent to the Senate.
- Realizing the need and importance of leveraged products in the capital market, the Commission constituted a Consultative Group on Capital Markets. After detailed deliberations with the stakeholders and in light of suggestions made by the Group, margin financing is being considered.
- To improve risk management and in order to segregate and protect client assets, client level margin system was introduced. The Risk Management Regulations of the stock exchanges were also amended to collect cash margins in derivatives market.
- To further improve corporate governance, Commission approved amendments in the Code of Corporate Governance whereby atleast one director of a listed company has to be certified under the Board Development Series program offered by the Pakistan Institute of Corporate Governance, upto June 30, 2011. Thereafter every year a minimum of one director on the Board shall acquire the above mentioned certification.
- In May 2009, various amendments pertaining to enhancement/ rationalization of fees and penalties being imposed by the Exchanges; establishment of Defaulters' Segment and Non-Compliant Segment in place of Defaulters' Counter, were approved by the Commission. These will provide a mechanism to the stock exchanges for effectively addressing irregularities/ defaults committed by the listed companies in relation to requirements laid down in the Listing Regulations of the Exchanges.

- During the year the Commission also approved amendments in the Unified Trading System Regulations of LSE and ISE, for meeting any clearing shortfalls from the existing Members' Contribution Fund.
- During the year under review, the National Commodity Exchange Limited (NCEL), which is Pakistan's first electronic commodities futures exchange, expanded its product portfolio to cater for the hedging and speculative needs of various target groups. The new product range is largely dominated by Gold. However, the products contain different specifications and denominations to cater to the interests of various investor groups.
- The establishment of the Institute of Capital Markets (ICM) was another major milestone achieved by SECP. ICM made a soft launch on October 26, 2009 and has launched three certifications programs for market intermediaries. ICM will assist in developing quality human capital, capable of meeting the emerging professional knowledge needs of capital markets and create standards amongst market professionals.
- In order to facilitate the issuers of securities, the existing Companies (Issue of Capital) Rules, 1996 were reviewed and amendments have been proposed to facilitate listing.
- To increase efficiency and transparency in the trading of debt market securities, the Commission approved the introduction of Bond Automated Trading System (BATS) at KSE.
- In an attempt to safeguard the interests of the unit holders, during the crisis, the Commission issued a direction under Section 282D of tzhe Companies Ordinance, 1984 whereby all asset management companies were directed to suspend pricing, issuance and redemption of units of open-end schemes with direct exposure to equity securities with immediate effect. The suspension was removed on December 18, 2008.
- The Private Equity and Venture Capital (PE&VC) Fund Regulations were notified on August 20, 2008. These regulations are the result of a comprehensive consultative process and include extensive market dialogue with domestic as well as international stakeholders. Private equity can play a vital role in metamorphosis of the local economy by providing growth capital to the local corporate sector particularly the SME sector besides patronizing entrepreneurship and fuelling the privatization process. Private equity can unlock the hidden value of the private companies by providing capital and managerial skills for growth and expansion. Moreover, it would help Pakistan attract foreign direct investment. Through these regulations, global PE&VC companies are allowed to do business in Pakistan through a simple registration of fund.
- Fit and Proper criteria for the appointment of the key executives in Modaraba Management Companies has been introduced through prudential regulations.
- Based on the recommendations of a National Task Force, the Commission promulgated the Group Companies Registration Regulations on December 31, 2008 to provide a regulatory framework for the formation of group companies. There is a dire need to take measures for consolidation of the core businesses in the corporate sector where presently prevalent family and individual ownership should be substituted by institutional and corporate ownership. The consolidation of corporate sector for emergence of financially and technically strong groups compatible with international corporations essential so as to effectively play a role towords attracting FDI flows. At present there are

about forty business groups which consist of private and public companies but invariably these are managed by families or individuals and do not reflect consolidated ownership. The Regulations empower the Commission to designate the group companies contemplating to avail group relief and group taxation benefits from the Federal Board of Revenue (FBR) in terms of the provisions of Income Tax Ordinance, 2001.

- In January 2009, owing to growing closures in industrial sector and the increasing NPLs in the banking sector a Committee was constituted by the Ministry of Finance, to review and finalize the draft Corporate Rehabilitation Act (CRA). I chaired this Committee and we consulted all major stakeholder groups and industries. The Committee completed its task and amendments have been made in the draft law after taking into account the suggestions made by the stakeholders and in the light of developments that have taken place in the last half decade.

Public Facilitation and Awareness

- The Commission has implemented e-services for online registration of companies and online filing of statutory returns. In order to encourage people to use this mode, the Commission has prescribed preferential rates for registration and filing which are almost half compared to those under a paper-based environment.
- During the year, Islamabad Capital Territory abolished the stamp duty on the registration of Memorandum of Association which has already been eradicated by the provincial governments in the four provinces, during the previous years.
- Territorial jurisdiction of the Company Registration Offices (CROs) was abolished through Finance Act 2007. After the aforesaid amendment in law, a company can be incorporated at any CRO irrespective of location of its registered office.
- For ease of investors and to reduce the cost of doing business, the listed companies were allowed to place their quarterly accounts on their websites instead of transmitting these by post to the shareholders.
- To avoid submission of fictitious and multiple applications by individual investors during IPOs of shares, The Commission published Warning Notices (both in Urdu & English Language) in all the leading newspapers and highlighted the violation of the Securities and Exchange Ordinance, 1969.

Enforcement and Compliance Actions

- Efforts under the Ordinance were geared up to deter unlawful inter-corporate financing in violation of Section 208 of the Ordinance. During the year, an aggregate penalty of Rs.6.85 million was imposed on directors of nine companies while in four cases warnings were issued. An aggregate penalty of over Rs. 10 million was imposed due to false/incorrect statements in documents.
- During the year, a penalty of Rs.7.36 million was imposed on directors of eight public companies for unlawfully disposing off company undertakings while in two cases warnings were issued. Further, proceedings against ten companies are in the process of finalization.
- During the year, an aggregate fine of Rs.0.33 million was imposed on partners of four audit firms while in four cases warnings were issued. Moreover, proceedings in eleven cases are in process of finalization.

- The chief executives of seven companies were fined for violating law on provident funds while in four cases warnings were issued.
- Registration of five brokerage houses was suspended after the Commission received a number of complaints from investors. Penalties were imposed on members of the stock exchanges for violation of securities laws with special reference to short/blank selling, wash trades and frequent deletion of orders, in seven different cases. Warning letters were issued in nine cases after conducting hearings for possible violations of the securities laws. In addition, several investigations are underway into possible instances of price manipulation and insider trading.
- The Registrar (Modarabas) passed 5 Orders under Sections 19, 20 & 32 of the Modaraba Ordinance to the Modaraba Management Companies primarily because of severe violations of Modaraba Ordinance and Prudential Regulations, non-compliance of requirements related to accounts, mismanagement of funds, non-compliance of reporting requirements and code of corporate governance upon which penalties were imposed.
- During the year, an inspector was appointed to investigate the affairs of a large NBFC with specific reference to a real estate transaction.
- A total of 74 show-cause notices were issued to the insurance companies for non-compliance of Companies Ordinance, 1984 and related Rules. Orders were passed in case of 41 companies and three directions under Section 170 were issued to comply with the regulatory requirements.

Learning and Knowledge Sharing

- In order to support the e-Services, a substantial portion of the physical record of companies maintained at Company Registration Offices (CROs) has been scanned. This is expected to substantially improve our data extraction capability and will result in a shorter response time to the public.
- World Bank provided funding through its IDF grant programme for projects pertaining to REITs and capacity building of Monitoring & Inspection wing of Specialized Companies Division (SCD). For capacity building of REITs team, a delegation was sent to the Securities Commission Malaysia which covered the regulatory practices adopted in Malaysia and had dialogue with key players of the real estate market. Under the same grant a consultant was hired to provide training on valuation of properties under construction. The consultancy in the area of mutual funds resulted in an intensive training of the SCD staff pertaining to the monitoring issues relating to mutual funds and international best practices in mutual fund management.
- The Commission is an active member of various international organizations including International Organization of Securities Commissions (IOSCO), International Association of Insurance Supervisors (IAIS), International Organization of Pension Supervisors (IOPS), International Valuation Standards Council (IVSC), Associate Member of Islamic Financial Services Board (IFSB), Asian Public Real Estate Association (APREA) and the International Association of Insolvency Regulators (IAIR). The memberships of these organizations help SECP to remain abreast on current issues in the global markets and provide an opportunity of continuous improvement and learning based on international best practices.

International Activities

- The Commission continued to play an active role in the activities of the IOSCO. SECP has been chairing the IOSCO's Working Group 3 (WG3), since October 2002 when Pakistan was elected to chair this important international forum set up by the Emerging Markets Committee (EMC) of IOSCO for the "Regulation of Market Intermediaries".
- During the year, the Commission successfully completed its work on the mandate of "Guidelines for Minimum Entry Requirements and Continuous Risk Based Supervision for Market Intermediaries". The substantive report prepared by the Commission, compiled and analyzed the feedback received on the mandate from 19 EMC member jurisdictions. The final report was presented at the IOSCO EMC Advisory Board meeting for consideration and was approved by the EMC during its November 2009 Annual Conference at Bucharest, Romania.
- The SECP along with other stakeholders, underwent detailed assessment of Anti-Money Laundering / Combating Financing of Terrorism (AML / CFT) Regime in Pakistan by way of mutual evaluation by the Asia Pacific Group (APG) and the World Bank. The evaluation was geared towards assessing Pakistan's legal, law enforcement and regulatory framework in respect of AML / CFT. The Mutual Evaluation Report for Pakistan, which was adopted in the annual meeting of APG, appreciated the initiatives taken by SECP to combat money laundering in various areas under its regulatory ambit and also gave certain recommendations to further strengthen the AML framework.

Bilateral Cooperation

- The Commission is actively involved in the promotion of co-operation with counterpart regulatory bodies of the capital markets at the bilateral, regional and international level. The Commission has already established co-operative arrangements through MOUs with the counterpart regulatory authorities of India, Maldives, Australia, Bhutan and Sri Lanka for cooperation and sharing of information.
- Expanding the cooperative linkages in the Economic Corporation Organization (ECO) region, the Commission signed an MOU for exchange of information and cooperation with the Securities and Exchange Organization (SEO) Iran. The MOU was signed in Tehran, subsequent to the close of the year under review.
- On the domestic front, coordination meetings with SBP remained an ongoing feature as the two regulators maintained close liaison to ensure that there is no regulatory arbitrage in the financial sector. In recent years, substantive structural changes have been witnessed in the financial markets and in the traditional operators in banking, investment firms and insurance companies. These changes caused by functional integration, diversification and de-specialization have led to the emergence of financial conglomerates and large financial groups which pose various risks to the stability of the financial markets and also to the group entities. Thus in order to focus on group enforcement, it is important that both SBP and SECP adopt coherent and coordinated regulatory approach that improves the effectiveness of supervision.

In order to minimize the risks of group contagion and regulatory arbitrage in financial conglomerates while simultaneously fostering diversification of products and activities, SECP and SBP enhanced the scope of existing cooperative mechanism and revamped the MOU for information sharing. A permanent 'Joint Task Force' has been constituted to determine risks posed by conglomeration like contagion risk, lack of transparency in intra group transactions and liquidity risks arising from asset liability mismatch.

Future Plans

The Commission has been through an intense legal reform process for the last few years and some of these reforms are now at an important juncture. The Futures Trading Act and the Securities Act have been submitted to the Government of Pakistan whereas the Demutualization Act after being passed by the National Assembly will soon be tabled before the Senate. The draft Securities and Exchange Commission of Pakistan Act (formerly named as FSC Act) is being reviewed by the Policy Board and shall soon be sent to the Government of Pakistan.

Once the above mentioned laws are enacted there will be a series of subsidiary legislation that will follow in the form of rules, regulations, guidelines, etc. All the new laws have been drafted keeping in view the international best practices and the peculiar nature of the Pakistani capital markets. Stress has been placed on soft regulation but enforcement powers have been substantially enhanced. For instance, keeping in view the fact that the white collar crimes are complex and extremely difficult to prove in the court of law, the new draft SECP Act includes provisions for plea bargain and voluntary surrender of undue gains.

Enhanced and efficient enforcement is only possible if the requisite skills set is inculcated in the officers. The Commission is in the process of building capacity of the enforcement officials to equip them with the latest tools, techniques and methodologies to carry out forensic investigations and detect lapses in corporate compliance.

In order to deepen the capital markets, a number of measures are being taken to encourage listing. Presently there are around 500 unlisted companies with paid up capital equal to or exceeding Rs. 200 million. In order to persuade these companies to come forward for listing, SECP is liaising with the FBR to provide tax incentives to listed companies. Further, the Commission is in the process of standardizing and simplifying the contents of the prospectus and the existing rules for issue of capital as well as for ballotters, transfer agents and underwriters are being reviewed. The concept of treasury shares shall soon be introduced and the applicability of the Code of Corporate Governance shall be extended to unlisted companies which cross certain thresholds. Similarly, to further develop the debt market, the Commission intends to take the following steps: introduction of the concept of listing and issuance of debentures to Qualified Institutional Buyers (QIB) and Sophisticated Investors (SI); reduction in the rate of stamp duty on the issuance and transfer of commercial papers and corporate bonds; introduction of the concept of appointment of Market Maker in all those issues made to QIBs and SIs; and review of the existing regulatory framework regulating the Credit Rating Agencies.

Owing to growth in the non-banking finance companies, there is a need to have a consolidated and comprehensive NBFC law, which is presently only covered as a section under the Ordinance.

Presently, the financial service industry is banking centric and the dependence of financial system on the banking sector creates vulnerabilities. It is imperative to promote an alternative non-bank financial (NBF) system to diversify the inherent systemic risk and to enhance the financial inclusion. A strong NBF sector (particularly pensions and collective investment schemes) would not only provide different asset class to promote savings by catering to the specific needs of the participants but would also provide alternative fund raising opportunities to the participants.

Investment banks can make a vital contribution in development of a vibrant NBF Sector. However, investment banks have not been able to make any significant contribution as primarily they focused on replicating the banking products. We intend to encourage a more viable and sustainable business model for Investment banks to be tilted more towards offering of non-funded (i.e. fee and commission based) financial services. These services may include brokerage, portfolio management, corporate finance, underwriting and advisory etc. This will also promote corporate brokerage houses culture and consequently would contribute to address the corporate governance issues in brokerage industry.

Leasing is a successful business model and we would promote it by allowing operational flexibility to leasing companies to cater to the specific financial needs of the customers. The leasing sector should focus on raising funds from capital and debt markets instead of depending upon conventional banking finance facilities only. They should also expand their outreach to rural areas as a target market which has great business potential without any competition from commercial banks.

Mutual Funds play a fundamental role in mobilizing and channelizing the savings to the capital and debt markets. We intend to develop this industry as an efficient alternative system to the conventional banking and National Saving Schemes to promote savings and investments. We will continue to promote international best practices to enhance the investors' confidence and enable them to make a well informed decision. However, the industry participants have to play the requisite pro-active role to enhance the retail base of the investors by focusing on distribution network, investors' awareness, product innovation and offering of unique and specialized services, etc. We expect Mutual Funds, being one of the most organized institutional stakeholders with specialized expertise, to contribute to the development and reforms of financial markets.

Modaraba sector being a unique islamic business model can contribute significantly towards NBF sector. In order to make modarabas a vibrant and strong segment of NBF sector, we are considering converting and bringing this islamic business structure under the ambit of NBFCs regime provided that existing legal impediments are taken care of at every forum.

Insurance is one area where we need to strengthen regulation and supervision. Unfortunately, the insurance penetration in Pakistan is one of the lowest in Asia. In the years to come the Commission intends to introduce micro insurance – a measure that has spurred insurance penetration in many countries and which caters to the insurance needs of the masses. However, this product will only succeed, if adequate disclosures are made, risk is mitigated and general public is informed about the advantages of the product. Apart from micro insurance, there is also a need to tap the huge demand for health insurance both in the corporate sector as well as general public. Owing to heightened terrorism activities in Pakistan there is a strong need and demand to create a terrorism pool. Countries that have long faced terrorism, such as the United Kingdom and Spain, have created adequately structured solutions based on private-public terrorism insurance partnerships. It is time for the government and insurers to improve the coordination of terrorism insurance policies and to ensure that adequate legislative frameworks are in place to protect the long-term financial resilience of the insurance industry.

In the end, I am compelled to point out that for the first time (and hopefully the last) in its history, SECP has incurred a net deficit of Rs. 665 million for the year. It is an irony that this un-usual situation is a result of certain actions taken by another Government agency, falling under the same parent Ministry (i.e., the Ministry of Finance). I would like to point out that the intention of the legislature and the Finance Division, in enacting Section 49(4) of the Income Tax Ordinance 2001 through Finance Act 2007, has been clearly spelled out in Clause 34(3) of "notes to clauses". The legislature and the Finance Division were aware of the fact that regulatory bodies were at that time not covered in the tax net and hence felt the need to bring these entities into the net by inserting section 49(4) through the Finance Act 2007. More specifically, Clause 34(3) "seeks to bring in tax net income of Regulatory and Development authorities". Clearly the intention of the legislature and the Finance Division was future taxation and not retrospective taxation. Since July 2007 when SECP was brought under the tax net, it is diligently paying all income tax dues. The Government agency raised a tax demand for Rs. 880 million for prior years and as a result SECP was left with no choice but to make provision for this unjustified tax demand in its annual accounts. Today SECP is left with no option other than to approach the courts of law to seek justice.

The employees of SECP are the driving force behind the organization. The Commission has taken a number of initiatives to improve and build the capacity of its staff. To bring fresh blood into the organization, we have re-initiated the induction of junior executives at entry level. Recently 28 new Junior Executives have been hired from the top universities of Pakistan. To further improve the efficiency of the Commission, we plan to enhance the number of officers to interact with the market. The strength of officers in support functions will be capped at current levels. To encourage career progression and boost the morale of the organization, the Commission has adopted a conscious policy of internal promotion. Furthermore, SECP is presently working from rented premises and we are making strenuous efforts with the concerned ministries and departments for the allocation of a plot to SECP for construction of its Head Office in Islamabad and subsequently for its CROs in other major cities.

In the end, I would like to express my profound gratitude and appreciation to my predecessor, Mr. Razi-ur-Rahman Khan whose untiring efforts, ardent commitment, devotion and leadership steered the Commission through difficult times. I would also like to thank the Minister of Finance for his on-going support and encouragement without which the reform process would not have been sustainable. I am grateful to the Chairman and the members of the Policy Board for their guidance on policy related matters during the year. I am also indebted to the employees of SECP for their hardwork and dedication. The past year contained many difficult challenges and it was only because of the hard work put in by our staff that SECP was able to successfully achieve its objectives.

Salman Ali Shaikh
Chairman

Chapter 3

THE COMMISSION

Organizational Structure
Management Team
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Policy Board Meetings

ANNUAL REPORT 2009

SECP

THE COMMISSION

3.1 Organizational Structure

Securities and Exchange Commission of Pakistan 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 corporate entities in Pakistan and for matters connected therewith. The regulation of the Non-Banking Finance (NBF) 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, superintendence and control of the corporate entities, NBFCs, insurance industry and protection of the interests of investors.

The Commission is organized into five main divisions: Company Law Division, Securities Market Division, Specialized Companies Division, Insurance Division and Law Division. The Commission's head office is in Islamabad. The Securities Market Division, Specialized Companies Division and Insurance Division each have two regional offices (Head Office) – Southern Regional Office and Northern Regional Office – to administer the securities and corporate laws in their respective territorial jurisdictions. Company Law Division has eight Company Registration Offices (CROs) at different cities in the country. Organizational Structure is at Annexure A.

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

3.2 Management Team

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

Mr. Salman Ali Shaikh is the Chairman of the Commission since January 12, 2009.

He has worked as a senior emerging markets banker having over thirty-two years experience with various leading banks in the country, with an expertise in large-scale debt recovery/remedial banking, financial sector restructuring and regulatory/legal reform. His experience includes corporate banking, complex credit/lending, remedial banking, senior management, corporate rehabilitation/restructuring, investment banking, financial sector training, and capacity building/target market cluster selection in the SME sector. He was a part of senior management team of CitiBank N.A, Pakistan 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. Salman Ali Shaikh (Chairman SECP)

Mr. Shaikh is currently serving on various focused groups and task forces with the Government of Pakistan, other regulatory agencies (State Bank of Pakistan, Federal Board of Revenue and the Competition Commission), and internationally (Asia Pacific Real Estate Association and the International Organization of Pensions Supervisors). He is also the head of a committee constituted by the Government of Pakistan to review and finalize the draft Corporate Rehabilitation Act (CRA).

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

Mr. S. Tariq Asaf Husain joined the Commission as Commissioner (Legal) in December 2007. Mr. Husain is a lawyer by profession and possesses over 36 years of diversified experience which includes: practicing in the High Courts & Supreme Court of Pakistan, an adjunct lecturer of law at Sindh Muslim Law College, Karachi, and senior counsel abroad with large corporations.


S. Tariq Asaf Husain (Commissioner Law)


Mr. Muhammad Sohail Dayala (Commissioner Securities Market Division)

Mr. Muhammad Sohail Dayala joined SECP as Commissioner Securities Market Division in 2009. He brings with him over fifteen years of experience in the fields of finance and equity market.

Mr. Dayala has also served on the Board of Directors of the two stock exchanges of the country, the Karachi Stock Exchange (Guarantee) Limited (KSE) and Lahore Stock Exchange (Guarantee) Limited (LSE). He actively participated in the Company Affairs & Corporate Governance Committee of KSE as the Chairman and the member. He being member of the Demutualization, Information Technology, Defaulters' and the Audit Committees of KSE and Demutualization Committee of LSE made significant professional contributions. Mr. Dayala, KSE representated on the Board of Directors of Central Depository Company of Pakistan Limited (CDC), JCR-VIS Credit Rating Company Limited (JCR) and representated LSE on the Board of Directors of National Clearing Company of Pakistan Limited (NCCPL). He also served as a member of Executive Committee-CDC, Internal Audit Committee-NCCPL and Human Resources Committee-NCCPL. Mr. Dayala has been Honorary Secretary of Mutual Fund Association of Pakistan (MUFAP).

Mr. Abdul Rehman Qureshi is Advisor to the Commission and also performs functions of the Secretary to the Commission and Securities & Exchange Policy Board. Mr. Qureshi, a lawyer by profession, having vast experience of administration of corporate laws at his credit, has been associated with the Commission and the erstwhile Corporate Law Authority (CLA) since 1976. He has served as Chief (Legal), Commissioner (Company Law & Enforcement), Commissioner (Specialized Companies) and the Commissioner (Support Services) Divisions. He was acting Chairman of the Commission from February 2003 to August, 2003.


Mr. Abdul Rehman Qureshi (Advisor to the Commission)

The following Executive Directors/Directors are presently heading the divisions/departments:

- Mr. Javed K. Siddiqui ED Finance
- Mr. Nazir Ahmed Shaheen ED Administration

• Mr. Tahir Mahmood	ED Enforcement
• Mr. Arshad Javed Minhas	ED IS&T
• Mr. Akif Saeed	ED Securities Market Division
• Mr. Mansur Ahsan	ED Human Resources
• Mr. S. Gulrez Yazdani	ED CS
• Ms. Nasreen Rashid	ED Insurance-Karachi
• Mr. Shahid Nasim	ED Specialized Companies Division Karachi
• Mr. M. Asif Jalal Bhatti	Director Specialized Companies Division
• Mr. Muhammad Siddique	Director Registration Department
• Mr. Jawed Hussain	Registrar of Companies

3.3 Divisions

As of 30 June 2009, the Commission's operations were being performed through the following Divisions:

- Company Law Division
- Securities Market Division
- Specialized Companies Division
- Insurance Division
- Law Division

3.4 Policy Board

The SECP Act provides that the Federal Government shall appoint a Securities and Exchange Policy Board (the Board) consisting of nine members, of which five shall be from the public sector and four from the private sector. The *ex-officio* members are Secretary, Finance Division; Secretary, Law and Justice Division; Secretary, Commerce Division; Chairman SECP and Deputy Governor of State Bank of Pakistan (SBP) nominated by Governor, SBP. The Federal Government has appointed Secretary, Finance Division as Chairman of the Board.

During the year under review, Mr. Farrukh Qayyum, Secretary, Finance Division remained Chairman of the Board till August 31, 2008 when Dr. Waqar Masood Khan Secretary, Finance Division was appointed and he ceased to be the chairman on his transfer w.e.f March 2, 2009. Subsequently, Mr. Salman Siddique was appointed Secretary Finance and is Chairman of the Board since March 3, 2009 till date.

During the year, Mr. Munawar Hamid, Mr. Anwar Saifullah Khan, Qazi Faez Isa and Mr. Faisal Bari were appointed by the Federal Government as Members of the Board from the private sector on December 24, 2008 against the vacant positions. However, Qazi Faez Isa on his appointment as Chief Justice of the Baluchistan High Court ceased to hold office as a Member. As regards *ex-officio* Members of the Board, Mr. Mansur-ur-Rehman Khan, Deputy Governor, SBP ceased to be a Member on January 8, 2009 on his retirement from the service of SBP and Mr. Yaseen Anwar, Deputy Governor was nominated on January 9, 2009 in his place. Mr. Razi-ur-Rehman Khan, Chairman, SECP also ceased as a Member of the Board when he retired as Chairman of the Commission on January 12, 2009.

As of June 30, 2009, the Policy Board consisted of the following members:

Mr. Salman Siddique
Finance Secretary
Chairman
Securities and Exchange Policy Board

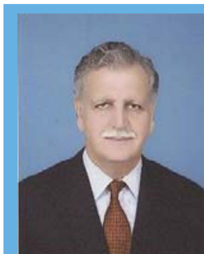
Mr. Salman Ali Shaikh
Chairman
Securities and Exchange Commission of Pakistan

Mr. Justice (Retd.) Riaz Kayani
Secretary Law, Justice, Human Rights & Parliamentary Affairs

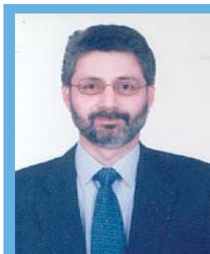
Mr. Suleman Ghani
Secretary
Commerce Division

Mr. Yaseen Anwar
Deputy Governor
State Bank of Pakistan

Mr. Munnawar Hamid
Former Chairman/CEO
ICI Pakistan



Mr. Anwar Saifullah Khan
Businessman / MPA, NWFP



Qazi Faez Isa
Senior Partner
Rizvi, Isa, Afridi & Angell
Advocates & Corporate Counsellors

Mr. Faisal Bari
Head of Economics Department
Lahore University of Management Sciences

3.5 Policy Board Meetings

Since all positions of the Board Members to be appointed from the private sector remained vacant upto December 24, 2008 only three meetings of the Policy Board could be held during the year under review. In the said meetings annual report for the year 2007-2008 was submitted to the Board and a detailed briefing on the performance of the Commission and the Capital Market was also given. Since a decreasing trend in the revenue of the Commission was witnessed due to uncertainty of the prevailing political and economic conditions of the country and complete closure of the Stock Exchanges for 109 days, an interim review of the Commission's financial position and year-end projections were given to the Board. In consultation with the Board's Members, various corrective measures for enhancing revenues of the Commission and reducing its expenditures were suggested and implemented for timely control of the challenges faced by the Commission. During the year, the following major issues came under discussion of the Board and appropriate decisions were taken:-

- Submission of Annual Report of the Commission along with its Annual Accounts for the financial year ended 30.6.2008.
- Briefing about tax status of the Commission.
- Approval of budget for the financial year 2009-2010.
- Grant of bonuses, salary increase and compensation review for the year 2009.
- Approval of amendments in SECP's Service Manual.
- Approval of amendments in HR Hand Book.
- Review of the proposal to establish Chairs of Excellence at IBA and LUMS.
- Briefing on AWACs Market Surveillance System.

Chapter 4

INTERNATIONAL AFFAIRS, COMMUNICATION AND COORDINATION DEPARTMENT

INTERNATIONAL AFFAIRS, COMMUNICATION AND COORDINATION DEPARTMENT (IACCD)

4.1 Introduction

International Affairs, Communication and Coordination Department (IACCD) (formally Chairman's Secretariat) coordinates the overall functioning of the Commission and liaises with external entities, including government agencies, ministries and multilateral and international organizations such as IOSCO, FATF, IFC, World Bank, ADB, etc.

IACCD also supports the management of corporate governance regime and donor-funded projects besides monitoring the redressal of investors and companies complaints by the concerned divisions. It maintains close liaison with the print and electronic media for proactive dissemination of information relating to key regulatory measures and initiatives undertaken by the Commission.

4.2 Operational Structure

4.2.1 Structure

IACCD has been structured in the following manner to better align its functions and responsibilities:

- International Affairs Wing
- Internal and External Coordination Wing
- Internal and External Communications Wing
- Information Resource Centre

4.2.2 Management Team

Chairman, Mr. Salman Ali Shaikh directly supervises the activities of IACCD. The operational management of the department rests with S. Gulrez Yazdani, Executive Director who is assisted by a team of professionals with diversified backgrounds and experiences.

Officers of IACCD with ED S. Gulrez Yazdani

4.3 International Affairs Wing

The International Affairs wing is primarily responsible for coordinating with multilateral and international organizations. The unit worked on formulating and putting in place cooperative mechanisms such as Memoranda of Understanding (MOU) at the international level to facilitate the detection of cross-border misconduct. The Commission has established cooperative 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 programme for the purpose of preventing illicit activities. A list of the organizations with which the Commission has signed MOUs appears in Annexure B.

4.3.1 International Organization of Securities Commissions (IOSCO)

The Commission is an ordinary member of IOSCO since 1993 and also heading the Working Group-3 of Emerging Markets Committee (EMC-WG3) at IOSCO.

4.3.2 IOSCO EMC-WG3

The Emerging Market Committee (EMC) meeting held on December 5, 2007 mandated EMC-WG3, responsible for "Regulation of Market Intermediaries" to develop, for emerging markets regulators, the "Guidelines for Minimum Entry Requirements and Continuous Risk Based Supervision for Market Intermediaries".

A survey questionnaire was circulated amongst the EMC member jurisdictions to obtain feedback to analyze their practices and approaches on "Minimum Entry Requirements and Continuous Risk Based Supervision for Market Intermediaries". Nineteen (19) EMC member jurisdictions provided information pertaining to their jurisdictions in response to survey questionnaire.

Draft report was circulated to all EMC members for comments on the side-lines of the IOSCO 2009 Annual Conference. The draft report broadly examines the current regulatory infrastructure/ framework applicable on entry requirements of the market intermediaries and the approaches adopted by the regulators to assess, monitor and mitigate operational, market, credit, financial, compliance, legal and other risks in different jurisdictions so as to optimally utilize the regulatory resources. The adequacy of infrastructure in terms of administration, technology, financial and human resources adopted by emerging market jurisdictions to monitor the market intermediaries is also covered in the report.

The report is expected to provide emerging market regulators with a greater understanding of the factors affecting Risk Based Supervision (RBS). Additionally, this report provides a review of the perspectives and experiences of different regulators in formulating policy and operational initiatives to enhance risk management standards and procedures in their jurisdictions.

The objective is to make both quantitative and qualitative assessments of minimum entry requirements and risk-based supervision of market intermediaries in emerging markets and to develop guidelines on RBS framework for emerging markets regulators, with the following specific intentions:

- To share existing practices for supervision of capital market intermediaries that would be consistent with the IOSCO "Objectives and Principles of Securities

Regulation", in particular, principles 21, 22 and 23; and
- To profile the application of RBS in EMC members; and
- To develop guidelines for RBS of capital market intermediaries and outline the challenges faced.

The survey found supervision of intermediaries to be an area that needs to be strengthened in emerging markets by the regulators. While minimum entry requirements have been established in almost all the surveyed jurisdictions through licensing standards and some form of supervisory framework may be in place, but it appears that there is still need to improve oversight of market intermediary activity effectively and require setting up detailed standards for internal controls, risk management and adequate prudential requirements.

The draft report covers the entry standards and RBS framework for market intermediaries in EMC members. Based on the study of different risk-based supervision approaches, the Commission has distilled the following guidelines on RBS:

1. Systematic planning for RBS approach
2. Identification and assessment of relevant risks
3. Appropriate allocation of supervisory resources

The Commission recognizing that the implementation of RBS is not without challenges, has also identified the challenges that relate to the skills gap of regulatory staff; ability to identify and define relevant risk types and risk mitigants; obtaining comprehensive risk profiles of capital market intermediaries; subjectivity involved in determining risk scores; and applying a consistent risk rating methodology across all institutions.

The Commission intends to finalize the drafting process by October 2009 and seek the EMC's approval for publication of the final report by November 2009.

4.3.3 EMC Task Force on Current Financial Crisis

The EMC constituted a Task Force to investigate and prepare a consultative paper on the current financial crises and to draw the conclusions from the results of a survey of EMC jurisdictions. It would also include recommendations designed to address current vulnerabilities in EMC members' jurisdictions and provide the basis for future sound regulatory approaches.

The Commission participated in the survey report, which provides an overview of the experiences of EMC members in responding to the financial crisis, given their different levels of development and the degree of impact of the crisis on their markets. The Report identifies the key regulatory and supervisory challenges facing EMC securities regulators in the current environment and sets out recommendations to address these challenges.

4.3.4 SECP self-assessment of IOSCO Objectives and Principles

The IOSCO Objectives and Principles provide a yardstick to measure the progress of member jurisdictions towards effective regulation. The 30 principles of securities regulation are based upon the three objectives of securities regulation; namely the protection of investors; ensuring that markets are fair, efficient and transparent; and the reduction of systemic risk.

The IOSCO member jurisdictions are required to practically implement Principles under the relevant legal framework and to undertake a self-assessment to review their securities regulatory practices to determine compliance with international best practices in the regulation and supervision of securities markets.

IOSCO provides a detailed methodology to conduct jurisdictional assessment of the level of implementation of the securities regulatory standards. The Commission has, therefore, constituted a Task Force to ensure adherence to these principles, as it is within its authority. The Task Force has the mandate to undertake the Commission's self-assessment to the level of implementation of the IOSCO's Objectives and Principles using the IOSCO assessment methodology.

The Task Force is currently working to identify gaps and areas of reforms in the existing laws, rules and procedures and develop a strategy to address these gaps institutionally so as to receive a satisfactory level of implementation.

4.3.5 IOSCO Multilateral Memorandum of Understanding (MMoU)

Integration of global financial markets and the increasing international activity in the securities and derivatives markets has necessitated the regulatory agencies of capital markets to develop cooperative linkages to ensure information sharing for enforcement of securities laws and to facilitate detection and combat of cross border violations.

On "International Cooperation" IOSCO Principles require regulators to establish information sharing mechanisms with their foreign counterparts for assistance in the discharge of their functions and exercise of their powers.

To implement IOSCO Principles on international cooperation, IOSCO adopted in 2002, a MMoU concerning consultation and cooperation and the exchange of information as an international benchmark for co-operation and information sharing among IOSCO Members to strengthen cross-border enforcement in the securities sector. IOSCO MMoU is a statement of commitment with regard to mutual assistance and specifies the type of information that each signatory must be able to provide on request by another signatory for securities enforcement purposes.

The signatories to the MMoU would derive the following benefits:

- Enhanced jurisdictions' ability and willingness to cooperate internationally.
- Ensure compliance with and enforcement of securities laws and regulations.
- Enhanced ability of regulators to detect and deter cross-border financial crime.
- Reinforce a message to the markets that regulators are co-operating and watching out for potential securities and derivatives fraud.

IOSCO is vigorously working on the global adoption of its MMoU. All IOSCO member jurisdiction are committed to either become a signatory to the MMoU (Appendix A-Member to the IOSCO MMOU) as their laws and systems comply with the international standards, by January 01, 2010 or countries are expected to express a formal commitment to seek the necessary legal authority that enable them to become signatory to the MMoU (Appendix B-Member to the IOSCO MMOU) by that date.

The Commission initiated the process to accede to the IOSCO MMoU and submitted the initial papers. IOSCO assessors raised certain questions with respect to the Commission's regulatory regime and practices particularly with regard to international cooperation. Questions specifically relate to Commission's capability to extend cooperation to foreign counterparts with respect to the bank and brokerage account records relating to securities transactions and the beneficial owners of such accounts, permissible use of that information in civil or administrative proceedings, onward sharing of information with self-regulatory organizations and criminal prosecution authorities and also with respect to keeping such information confidential.

The Commission sought technical assistance support from IOSCO for processing the application for IOSCO MMoU. IOSCO is providing remote technical assistance to the Commission through US SEC. The Commission has finalized and submitted its application to IOSCO to become Appendix-B signatory to the IOSCO MMOU.

4.3.6 Projects Management (PM)

During the period under review, a number of activities were undertaken in World Bank's Institutional Development Fund (IDF) Grant. Work on compliance with Second Tranche loan conditionalities of "ADB's Second Generation of Capital Market Reforms Programme" also executed at a satisfactory pace. World Bank Anti-Money Laundering project under TABS Programme was successfully executed.

(a) World Bank Assistance for Capacity Building of the Commission

In November 2005, the World Bank, under its Institutional Development Fund facility approved a grant of US$ 454,000 for the Commission. The closing date of the grant was extended by one year to September, 28 2009. A World Bank mission visited the Commission in March 2009 to review the progress in implementation of the grant. The mission focused on the procurement activities in pipeline and reviewed progress on the outcomes and performance indicators. It highly appreciated the efforts under taken by the Commission for achieving the objects of the grant.

Two local consultants were hired for Information Technology (IT) audit to examine the controls and IT governance practices currently in place at the Commission and to suggest ways for their improvement. The consultants have completed their assignment and have also submitted their report.

An international consultant was appointed for raising institutional capacity for "Credit Rating Agencies". The consultant has initiated work and is expected to complete the assignment in mid September and submit his report.

A local consultant has been hired for developing courses syllabus, curriculum and question bank for Institute of Capital Market's (ICM) examinations/certifications. The consultant is currently closely working with team of the Commission and the Institute and is expected to relinquish the assignment by mid September 2009.

IT equipment for the ICM was purchased during the year to equip it with the advanced technology. Process for purchase of equipment for various departments of the Commission has also been initiated and equipment is expected to be delivered by end of September 2009.

(b) Second Generation of Capital Market Reforms Programme

The Programme is an assistance package of ADB to Government of Pakistan for further capital market reforms through (i) a loan of US$ 400 million to Government of Pakistan and (ii) a technical assistance (TA) grant of US$1million to the Commission to support the implementation of the programme.

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

The TA interalia contemplates the following key activities:

(i) Establishment of a Capital Market Institute as a non-government certification institute to raise professional standards among market participants and professionals.
(ii) Create a regulatory framework for private pension funds with a particular focus on occupational savings schemes.

Under the TA, ADB hired a pension regulation expert to support the Commission in establishing a unified supervisory and regulatory framework for occupational saving schemes for companies incorporated under the Companies Ordinance 1984. The expert is working in coordination with the Commission officers and is expected to complete the assignment by January 2010.

Three officers of the Commission also attended the International Conference on Investor Education held in March 2009 at Washington DC, USA, under the TA.

The Commission has initiated the process to appoint consultants for; (i) harmonization of the regulatory framework governing capital markets in Pakistan; (ii) development of investigation/ inspection manual for its enforcement actions; (iii) valuation methodology of corporate bonds and provisioning criteria for non-performing debt Securities for CIS; and (iv) providing assistance to Capital Market Institute in improving public awareness of the Pakistan capital markets, strengthen programme offering and develop a forum for business policy roundtables. These consultants are expected to be appointed in September & October 2009 and are expected to complete their assignments by January 2010. Procurement of books for Capital Market Institute under the TA is also in process.

(c) Anti Money Laundering (AML)

The Commission coordinates and liaises with relevant agencies, both locally and internationally, to promote AML practices and procedures in corporate and certain segments of financial sector in Pakistan.

Funding for AML and Combating Financial Terrorism (CFT) had 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 had a share of US$ 350,000 for capacity building in enforcement and supervision. The TABS project expired on 30 June 2009.

During the year, the Commission participated in (i) the APG Typologies Workshop 2008 on "Money Laundering & Terrorist Financing methods and trends in the Asia/Pacific Region" at Colombo, Sri Lanka, and (ii) AUSTRAC Monitoring compliance workshop on the subject of Anti

Money Laundering held in Indonesia in May 2009.

4.4 Promulgation of Anti-Money Laundering Regime in Pakistan

The Commission actively participated as a member of the sub-committee formed by the Government to review the AML Ordinance (AMLO) and formulation of Rules & Regulations.

The proposed revisions in AMLO submitted by the sub-committee have been approved by the National Executive Committee (NEC) and also by the Cabinet. The amendments are currently in parliamentary process for final approval. The Rules & Regulations under AMLO were also framed and notified in November 2008. The Rules provide an account of the mode of operation of the Financial Monitoring Unit (FMU) and outline the major steps to be carried out once a suspicious transaction is ascertained and reported. The regulations endeavor to highlight the major transactions that might constitute a potential money laundering scenario either singly or in combination with other similar instances as identified under the regulations.

4.4.1 Mutual Evaluation

Asia Pacific Group (APG), as one of the membership requirements, conducts a review/evaluation of member Country's AML/CFT systems through the process of Mutual Evaluation, by a detailed country assessment.

SECP actively participated in Pakistan's County Evaluation on AML / CFT regime conducted jointly by APG and World Bank from September 2008 to July 2009. The Commission provided responses to the detailed questionnaire of Mutual Evaluation team being an off-site procedure of assessment and also had discussion with them during on-site visits. The draft reports issued by the evaluation team were also thoroughly examined and through valid inputs the ranking got upgraded in various areas under the purview of the Commission. The efforts of the Commission for upgrading its systems and procedures have greatly contributed in the up-gradation of country's "non-compliant" ranking under evaluation of 2004 to "partially compliant" ranking under evaluation of 2008-09.

The provisions of the revised MOU between SECP and SBP specifically addresses the sharing of the information for AML regime. A committee of the two regulators has been formed to formulate joint recommendations on implementation of AML Law.

4.5 Internal and External Coordination Wing

The Internal & External Coordination wing of IACCD maintains 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 Wing also reviews the progress of Appellate Bench of the Commission through regular monitoring and handle references received from the ministries.

In order to create awareness amongst the stakeholders about the availability of vigilance mechanism and how the stakeholders can make best use of the mechanism, 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 nature of complaints received generally includes: non-transfer of shares, unauthorized trading (sale/purchase), unauthorized transfer/movement of shares, non-submission of statements of account, non-receipt of annual or half yearly accounts, failure to execute investors' instructions/ orders, suspension of payments, non-delivery of securities and non-payment of dividend.

4.5.1 MoU with State Bank of Pakistan on Information Sharing

SECP has signed a revised MoU with the State Bank of Pakistan (SBP) in March 2009 for better coordination, information sharing and efficient monitoring of the financial sector institutions in Pakistan. The MoU allows both the regulators to share information and work towards the holistic development of the financial sector through the supervision of banks, development financial institutions, non-banking financial companies operating in Pakistan. Both regulators agreed to keep themselves informed from time to time about the nature of their regulatory system and the manner and extent to which they would like to conduct consolidated supervision over any group of banks/ financial institutions having common management and ownership control.

4.5.2 Letter of Understanding (LoU) with SBP

SECP and SBP also signed a LoU in March 2009 for creation of a joint task force to determine risks posed by conglomeration. Both the regulators are committed to minimize the risks of group contagion and regulatory arbitrage in financial conglomerates while simultaneously fostering diversification of products and activities. They have decided to coordinate and cooperate in their activities and agreed to achieve major objectives of consolidated supervision through creation of a joint task force to determine risks posed by conglomeration like, contagion risk, lack of transparency in intra-group transactions and liquidity risks arising from asset-liability mismatch.

4.5.3 Corporate Governance Project

The Commission provides the foundations of good corporate governance by building institutional, legal and regulatory framework for better management of corporate sector entities. The Commission developed the Code of Corporate Governance (CCG) for listed companies in 2002 to strengthen the regulatory mechanism and also established Pakistan Institute of Corporate Governance (PICG). The Commission has a policy to expand the scope of CCG and to make it more effective.

During the year, PICG developed its Board Development Series (BDS) programme (Director Education) with IFC's assistance with the objective of providing the market with certified Directors abreast with international corporate governance developments. 34 BDS programmes have been conducted since February 2007. It is expected that upon maturity of Pakistani's corporate sector over the next few years, companies shall see a rising market demand for best, certified and fully equipped directors in their Boards to meet the governance challenges in an increasingly globalizing world. As of June 30, 2009, 78 directors have successfully completed the BDS and attained the certificate in Director Education. The PICG has also conducted 19 Directors Orientation Workshop (DOW). PICG also took steps during the year to increase the representation of corporate sector and approval of opening individual membership of the Institute. Membership has been increased to 56 members.

PICG's survey report titled 'Compensation Policies for Directors of Companies was published in February 2009. The survey mainly focused on KSE–100 Index companies and provides extensive information and analysis of the trends of Directors' compensation in Pakistan that can be used as a reference tool for development of future compensation policies.

(a) PICG-Certification Programmes for Directors of Public Listed Companies

The Commission in order to promote the corporate governance principles and best practices, has made the certification for directors on the board of listed companies mandatory, enabling them to better address the complexities of the corporate sector. The PICG's programme, namely BDS, which was being offered as a voluntary certification/qualification until recently, has been made obligatory for the public listed companies that would be required to have at least one certified director on their board by 30th June, 2011. The Commission has directed the stock exchanges to incorporate the mandatory certification requirement under Code of Corporate Governance in the Listing Regulation.

The Commission shall continue efforts to extend the scope of the CCG to other regulated sectors under its purview. Amendments in the CCG will be made in light of the survey reports and recommendations of the task force formed by PICG to review the CCG.

4.6 Development of Chartered Accountancy Profession

The Institute of Chartered Accountants of Pakistan a self regulatory organization established under Chartered Accountants Ordinance, 1961 was established on July 1, 1961 to regulate the profession of accountancy in Pakistan. It is a statutory autonomous body with an oversight role with the Commission. With significant growth in the profession, the CA Ordinance and Bye-Laws were revised in 1983, and are periodically reviewed to align them globally.

4.6.1 Tax Reforms

SECP is committed to promote investment climate in the country that is conducive for the growth and development of capital markets and the corporate sector. Excessive taxation results in outflow of corporate resources, discourages investment and curtails growth. On the other hand, tax anomalies result in inefficient distribution of resources. The Commission, cognizant of its responsibility, endeavors to strike a balance by making efforts to rationalize taxes to boost growth of the sectors under its purview. For this purpose, the Commission adopts a threefold strategy which encompasses (i) continuation of reforms in the capital markets and corporate sector (ii) deepening of structural reforms by removing anomalies that constrain economic activity and (iii) providing a level playing field to all the stakeholders.

The Commission, working in close conjunction with the FBR continued with its reforms agenda for capital markets, corporate and NBFC's sectors and proposed several amendments in tax laws to rationalize the fiscal incentive system in Pakistan. These proposals aim to make the capital markets and corporate sector competitive, incentivize corporatization, and ensure progressive development of corporate entities. Most of the suggested amendments, however, were not accommodated by FBR this year due to resource constraints.

4.7 Internal and External Communications Wing

The Internal & External Communications wing has conducted a number of activities during the year. The main thrust of these activities has been to streamline the internal and external communication processes of the Commission, improve the institution's public image and raise awareness among the key stakeholders about the role and functioning of the Commission.

Likewise, effective steps were also taken to streamline the publications of the Commission.

4.7.1 Journalists Training Workshop

The Internal & External Communications wing designed a training program for journalists in key cities of Pakistan. The first training was held in Islamabad on February 28, 2009. It was a well attended event and journalists from all major news organizations and TV channels participated therein.

Journalists Training Workshop in progress at Crown Plaza Hotel in Islamabad

Presentations were given on areas such as Securities Market, NBFC, REITs, Private Pension and Company Law. Journalists took keen interest in the presentations made by the senior officers of the Commission, who later replied to questions asked by the participants.

The second workshop was held in Avari Hotel Karachi on March 7, 2009. In this workshop, the participants also included prominent TV anchors of famous business shows besides print reporters and correspondents of news agencies. Chairman, Mr. Salman Ali Shaikh distributed certificates among the participants of the workshop.

Journalists Training Workshop in progress at Avari Hotel in Karachi

4.7.2 Official Monthly Newsletter

A monthly newsletter, launched in May 2008, was continued till 2009. In January 2009, a special annual issue of the newsletter was published. The newsletter has been a constant source of information dissemination and benefiting the internal as well as the external stakeholders.

4.7.3 News Management System

To keep the Commission officials updated on news, views and editorials appearing in national and international media about developments in capital markets, corporate sector and other affiliated sectors, a News Management System has been developed with the technological support of IS&TD. This is an online system, which is advanced, efficient and user-friendly.

4.8 Information Resource Centre

The small library in the Commission has been developed into a robust Information Resource Centre (IRC) which is a modern and improved form of a library. It provides online information about the bibliographic items and other reference services.

a) Print Resources

IRC has procured the print resources which includes; pertinent reference books, periodicals, newspapers and annual/other research reports.

b) Online Resources

IRC has subscribed for online resources from the national and international organizations. Now online access is available to the Commission on following resources: Pakistan Law Site; Indlaw Communication Ltd; ACM Digital Library and HEC Digital Library (DL).

4.8.1 Online Public Access Catalog

IRC has facility for the users to access the information about the books and journals through the *Online Public Access Catalog **(OPAC)***.Commission staff can readily reserve/borrow and search the desired material from OPAC.

4.9 Future Plans

The following activities are envisaged to be undertaken in the coming year:

a) International Affairs Wing

i) To be an Appendix A signatory to the IOSCO MMoU
ii) Complete SECP Self Assessment of IOSCO Objectives and Principles
iii) Obtain EMC approval of the WG3 Report on the mandate
iv) Explore the possibility to enhance international cooperative arrangements with Jordan, Malaysia and UAE
v) Implement mechanism under the existing cooperative mechanism/MoUs to achieve the objectives.
vi) Completion of consultancies under World Bank's IDF grant
vii) Compliance with second tranche release conditions and completion of on-going consultancies under the TA of Second Generation of Capital Market Reforms Programme
viii) Exploration and initiation of new projects with international and multilateral organizations, targeted as priority reform measures
ix) Implementation of AML/CFT Regime within the regulatees

b) Internal and External Coordination Wing

i) Strengthen cooperative mechanism with the national regulators such as SBP and NAB etc.
ii) Ensure efficient redressal of complaints by the Commission.

c) Internal and External Communications Wing

i) Development and restructuring of media strategy
ii) Establish network for prompt dissemination of information for the investors

COMPANY LAW DIVISION

Chapter 5

COMPANY LAW DIVISION

COMPANY LAW DIVISION

6.0 Introduction

Company 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 scenarios. CLD also undertakes monitoring and vigilance of the corporate sector to promote transparency, accountability and good corporate governance practices.

The Division is entrusted with the following functions:

- Administration and enforcement of the Companies Ordinance 1984 (the Ordinance) as well as other relevant laws, rules and regulations.
- Registration of companies through Commission's field offices, the Company Registration Offices (CROs) located in various cities, i.e., Karachi, Lahore, Islamabad, Peshawar, Multan, Faisalabad, Quetta and Sukkur.
- Regulating the statutory functions of companies and monitoring corporate compliance through examination of statutory returns and accounts for listed, unlisted as well as private companies.
- Ensuring compliance of listed, unlisted as well as private companies (except NBFC's and Modarabas) with various corporate laws and regulations with the aim of protecting the interests of shareholders, creditors and other stakeholders.

6.1 Operational Structure

6.1.1 Structure

CLD operates with the following departments:

- Registration Department (RD)
- Enforcement Department (EnfD)

6.1.2 Management Team

Mr. Salman Ali Shaikh, Chairman oversees CLD. Mr. Tahir Mahmood Executive Director is incharge of the Enforcement Department, Mr. Muhammad Siddique Director is incharge of the Registration Department while Mr. Jawed Hussain is performing the responsibilities as Registrar of Companies and supervises the working of CROs.

REGISTRATION DEPARTMENT

Officers of Registration Department

Registration Department

CRO Lahore

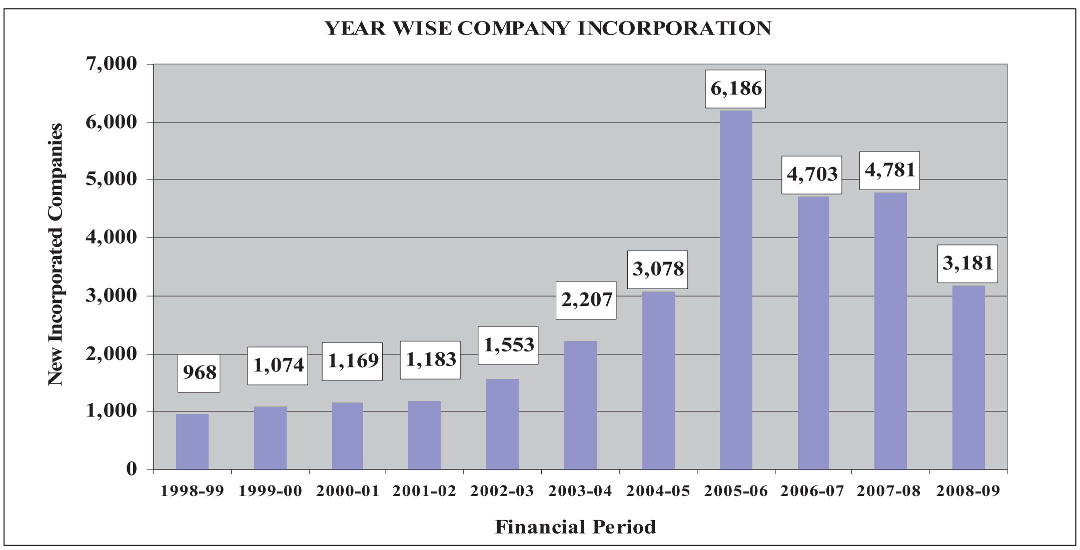
CRO Islamabad

6.2 Corporate Growth

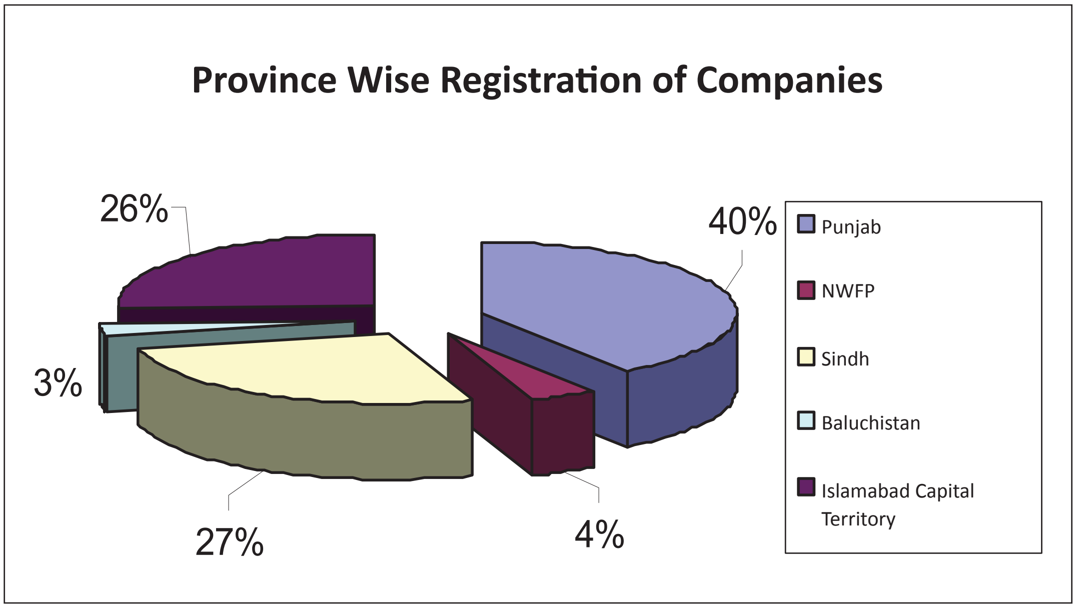
During FY 2008-09, 3,181 companies were registered. Total number of registered companies at the end of FY 2008-09 were 53,308, out of which 19,849 companies filed their annual returns with the registrars concerned, implying a compliance rate of 43%. These figures include returns filed by 3,283 companies under 'Companies Regularization Scheme' upto June 30, 2009.

6.2.1 Year Wise Growth

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

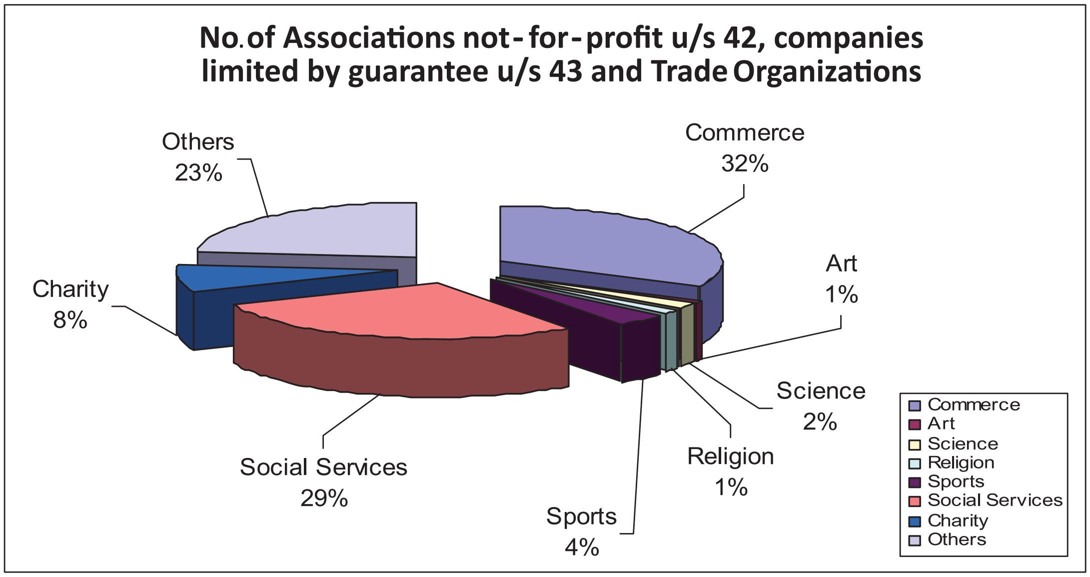


6.2.2 Province Wise Distribution of Companies



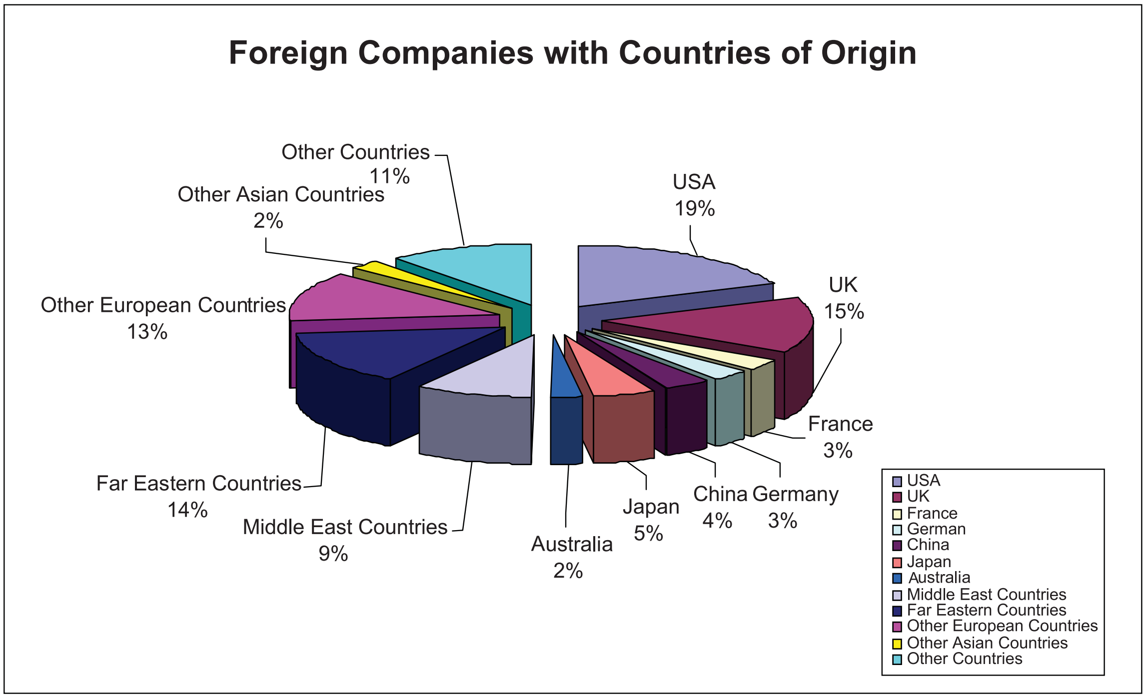
6.2.3 Association not-for-profit under Section 42, Companies Limited by Guarantee under Section 43 and Trade Organizations

Presently, there are 697 associations not-for-profit, companies limited by guarantee and trade organizations working in various fields such as commerce, art, science, religion, sports, social services and charity. The distribution is shown in the figure below:



6.2.4 Foreign companies

Foreign companies that are incorporated abroad and have established a place of business in Pakistan are contributing a lot towards the development of country's economy. At the end of the FY, 769 foreign companies were operating in the country. Country Wise break up of foreign companies is shown below:



6.3 Performance Overview

The Commission has a strategy to facilitate an easy entry of the entities into the corporate sector, as well as ensuring their continuous growth and development, for the benefit of economy and public. In line with this strategy, the Commission achieved some remarkable targets in the development of corporate sector in the country during the FY 2008-09, particularly in the domain of registration of new companies, and also ensuring statutory compliance by registered companies, with legal and regulatory requirements.

A significant milestone has been achieved with the launch of eServices, in August, 2008. eServices facilitate availability of name, incorporation of companies, other applications i.e., change of name, change of company status etc, and filing of statutory returns. Enables the promoters and other officers of companies to obtain these services online using the eServices portal, without visiting the offices of the Commission.

Furthermore, scanning and archiving of documents project, is almost at completion stage at CROs, which enables a speedy and transparent paperless environment.

With the view to further strengthen regulatory environment, significant measures were taken including promulgation of Group Companies Registration Regulations, 2008, Companies Cost Accounting Records (General) Order, 2008 for five industries, and amendments in the First Schedule and the Sixth Schedule to the Ordinance.

In order to facilitate the defaulter companies in filing their overdue returns and accounts and to encourage corporate compliance, an amnesty scheme namely 'Companies Regularization Scheme" was launched from May 15, 2009.

The Commission also succeeded in its efforts for abolition of stamp duty in the Islamabad Capital Territory, levied on the Memorandum and Articles of Association at the time of incorporation of a company.

6.3.1 Provision of eServices

The Commission achieved an important milestone on August 25, 2008 by launching eServices. eServices is designed to benefit a wide range of stakeholders including the regulatees, promoters, practitioners, the regulator itself and the general public at large. It facilitates the functions of availability of company name, incorporation of companies and filing of statutory returns through online system.

It enables the promoters and other officers of the companies to interact online using eServices portal, without visiting the offices of the Commission. It not only saves time and resources, but also increases efficiency, creates a paperless environment, promotes confidence, facilitates the general public as well as the companies, and strengthens the country's economy.

6.3.2 Scanning and Archiving Project

In order to support the eServices, all the physical record of companies maintained at CROs has been scanned (except Peshawar which is expected to be completed by the end of July 2009). About 15 million pages were scanned at CROs and HQ during this project. Some notable benefits of scanning and archiving are data security, paperless environment, quick retrieval, cost effectiveness, time saving and better performance.

6.3.3 Creating Awareness of eServices

(a) Pre & Post Launch Seminars on eServices

Pre & Post launch seminars were held in many cities throughout the country including Karachi, Lahore, Islamabad, Faisalabad and Multan in collaboration with professional bodies, i.e., respective chambers, tax bar associations, ICAP and ICMAP, for creating awareness on online services and processes. Post launch workshops were also held at Lahore. Feedback from the seminars and workshops remained very encouraging. Stakeholders appreciated the efforts of the Commission for embarking upon highly ambitious and practical e-Services and gave suggestions to further improve the project in line with the demands and requirements of the end users.

(b) Other Promotional Activities

In order to acquaint the potential users of eServices with the various facilities and services, extensive media campaign was launched in print and electronic media. Further, step-wise procedure/ guidelines on each process of eServices application was made available on the Commission's web-site.

6.3.4 Abolition of territorial jurisdiction

In view of the abolishment of territorial jurisdiction of the CROs made vide Finance Act 2007, a company can now be incorporated by any CRO irrespective of its registered office.

6.3.5 Revision in fees structure facilitating online services

Sixth Schedule to the Ordinance, has been amended to revise the fees structure, whereby the fees for online services have been set lower as compared to manual submission, with the view to facilitate online submission of documents by companies.

6.3.6 Abolition of stamp duty in Islamabad Capital Territory (ICT)

During the FY 2008-09, with relentless efforts of the departmental management and the CRO, Islamabad, the local administration of ICT abolished the stamp duty on the registration of Memorandum of Association, on the recommendation of the Commission. This initiative was taken in order to promote business activities in Islamabad and adjoining region. All the provincial Governments i.e., Punjab, N.W.F.P, Sindh and Baluchistan have already abolished the stamp duty in previous years.

6.4 Development of Legal Framework

6.4.1 Companies Cost Accounting Records (General Order), 2008

With a view to have cost appraisal of the companies, to identify inefficiencies in the production and increase profitability and performance, cost accounting records were prescribed by the Commission, vide General Order dated 26 September, 2008, for companies engaged in manufacturing, production and processing of fertilizer, thermal energy, petroleum refining, natural gas and polyester fiber.

6.4.2 Group Companies Registration Regulations, 2008

The Commission promulgated the Group Companies Registration Regulations on December 31, 2008 to provide a regulatory framework for the formation of group companies. The Regulations were also aimed to empower the Commission to designate the group companies contemplating to avail group relief and group taxation benefits from the Federal Board of Revenue (FBR) in terms of the provisions of Income Tax Ordinance, 2001.

However, on the basis of consultation with stakeholders, a few provisions of the Regulations were found to have jurisdictional overlaps with those under the regulatory purview of FBR. Such provisions have been proposed to be amended so that both the corporate and tax regulators are able to effectively exercise their powers under their respective jurisdictions.

6.4.3 Amendments in First Schedule to the Ordinance

First Schedule to the Ordinance containing the sets of Memorandum and Articles of Association for different kinds of companies was amended, so as to bring it in conformity with the amendments in Sections 74, 158, 161, 233 and 248 of the Ordinance made through Finance Acts of 2007 and 2008.

6.5 Regulatory Actions

6.5.1 Processing of application for grant of license to Associations not-for-profit under section 42

During the financial year 2008-09, 23 licenses were issued to associations not-for-profit under section 42, as compared to 52 licenses issued during last year. The Commission has undertaken radical measures to facilitate public in preparation of application for grant of license under section 42 of the Ordinance and for ensuring quick disposal of these applications.

The Commission has made certain changes, in the conditions, for grant of license under section 42 of the Ordinance. Significantly, an Association not-for-profit will now be allowed for the promotion of a single object instead of multiple objects.

It was observed that promoters of most of such associations apply for multiple objects, ignoring the fact that they lack sufficient skills, expertise and resources for the attainment of those multiple objects. This practice leads to misuse of the resources in the association, and raise other issues of regulation, as it becomes difficult to account for the various activities and funds spent on such pursuits may be improper. Keeping this in view, an association shall now be allowed for the promotion of only one object falling within the ambit of section 42 of the Ordinance.

Furthermore, other important conditions have also been added in the policy for licensing these associations, to enhance credibility and transparency including the following:

- no fund shall be received by associations otherwise than through proper banking channels, i.e., through crossed cheque, pay order, bank draft, etc;
- contribution of a reasonable amount not less than Rs. 200,000 as start up donation by each subscriber;
- the limit of minimum liability of members shall not be less than Rs. 100,000;
- income and any profits shall be applied only towards its objects;
- license is granted for a definite period of five years that will be renewed for further term of five years , after evaluating the past performance of the association;
- a detailed report with regard to the performance of the association during the preceding four years, duly evaluated and certified by Pakistan Centre for Philanthropy, is required to be submitted for renewal of the license by the association.

6.5.2 Amalgamations and Mergers of Companies

During the year, the Commission submitted oral and written representations in respect of 12 cases of amalgamation in the Courts. The courts approved the amalgamation in respect of the following cases:

1. Innovative Energy Limited into Motorway CNG Operator Company Limited
2. Al Shafi Steel (Pvt.) Ltd into Ittefaq Sons (Pvt.) Ltd
3. Nishat Apparel Ltd into Nishat Mills Ltd.
4. Jubilee Energy (Pvt.) Ltd into Jubilee Spinning & Weaving Mills Ltd
5. Automotive Battery Limited into Exide Pakistan Limited
6. Pfizer Laboratories Limited into Parke Davis & Company Limited
7. Network Leasing Corporation of Pakistan Limited into KASB Bank Limited
8. Merck Sharp and Dome Limited into OBS Pakistan Limited
9. Allied Rental Services (Private) Limited into Allied Engineering and Services Limited
10. J.P. Morgan Pakistan Limited into J.P. Morgan Pakistan (Private) Limited
11. Ghani Holding (Pvt.) Limited into Javedan Cement Limited
12 Abbas Holding (Private) Limited into Javedan Cement Limited

6.5.3 Approvals and Permissions

The 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 7.

6.5.4 Capital Issues

(a) Issues of shares other than rights

During the year under review, one company sought approval to issue shares other than rights to the existing shareholders and was accordingly allowed to issue shares amounting to Rs. 250 million.

(b) Issue of preference shares

During the year under review, 15 companies were allowed to issue preference shares, with varied rights and privileges amounting to Rs 2,095.76 million.

6.6 Monitoring and Enforcement

6.6.1 Investigations into affairs of companies

During the year, the Commission received and processed ten applications under section 263 of the Ordinance for investigation of affairs of the companies not being managed properly in accordance with the law.

6.6.2 Adjudication of cases under the Ordinance

During the year, the Registrar of Companies and the CROs adjudicated 1,139 cases of violation of various provisions of the Ordinance Punitive actions were taken against errant companies.

6.6.3 Examination of Annual Accounts of non-listed public companies and Associations not-for-profit

Annual accounts of 753 non-listed public companies and associations not-for-profit were examined during the period. Necessary action was undertaken against the errant companies. Show cause notices, warning notices and explanation letters were issued to 577 companies for non-compliance with the statutory requirements, while 176 accounts were found in order.

6.6.4 Dissolution of Companies

RD disposed off 953 cases of dissolution of companies. Of these, 16 companies wound up voluntarily, 3 companies were compulsorily liquidated under Court Orders and 934 companies were struck off from the register under section 439 of the Ordinance. The dissolved companies had a cumulative paid up capital of Rs. 856.78 million.

6.6.5 Investors' grievances against companies

During the period, the RD received 107 complaints from different stakeholders. Of these, 92 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 rights 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.

6.6.6 Cost analysis

Cost analysis of the cement and sugar industries, through extraction of material information from the cost auditors' reports of the companies, were undertaken. A joint exercise was conducted with the Enforcement Department so that the data of listed companies could be summarized with that of unlisted and private companies. The summarized analysis was also shared with the relevant ministries and government departments, for whom the costing and pricing mechanism of the specified industries would be meaningful for analytical purposes.

6.7 Promotion of Compliance

6.7.1 Facilitation extended in filing of annual returns and annual accounts

The Commission provided facilitation on the due dates of filing of annual returns and annual accounts. Facility for collection of these documents was also provided at the Chambers of Commerce and Industry, in the cities of Rawalpindi, Sialkot, Gujranwala, Gujrat and Hyderabad, apart from the Commission's eight CROs. Advertisements, public notices and press releases for creating awareness were also issued.

This initiative was undertaken by the Commission to facilitate companies in timely filing of returns and to accelerate the rate of corporate compliance in the country.

6.7.2 Monthly Visit to Hyderabad Chamber of Commerce

An official from CRO Karachi monthly visits the Hyderabad Chamber of Commerce in order to provide information to the investors and the general public as well as to enable company incorporation and collection of statutory returns.

6.7.3 Advertising campaign against Unauthorized/Illegal Businesses and to improve statutory compliance

Like previous years, an advertising campaign was undertaken to improve statutory compliance as well as to make the business community and general public aware of unauthorized/ illegal business activities.

During the year, joint advertisements/ public notices were published in collaboration with SBP, on illegal real estate businesses/ MLM/ Pyramid activities. Further advertisements were published on filing of annual returns and Companies Regularization Scheme.

6.8 Facilitation Measures and other Developmental Activities

6.8.1 Establishment of Facilitation Centers at Company Registration Office, Multan and Faisalabad

In order to provide expeditious services to the corporate sector and the general public, facilitation centers were established at CROs Multan and Faisalabad.

6.8.2 Re-launching of Companies Regularization Scheme (CRS)

An amnesty scheme, 'Companies Regularization Scheme', was re-launched by the Commission, to give relief to those companies, which have in the past, defaulted in filing of various statutory returns under the Ordinance. The scheme enables filing of overdue returns on payment of only normal filing fees and provides complete waiver of additional late filing fees and penalties. The scheme was applicable on all types of companies other than listed companies.

The scheme was initially launched for 45 days from May 15, 2009 to June 30, 2009. During this period, the scheme received an overwhelming response from the corporate sector and a total of 3,283 companies availed this opportunity and filed 13,485 returns.

Keeping in view the encouraging response received from the corporate sector, the scheme has been further extended upto July 31, 2009.

Response of Companies Regularization Scheme upto 30.06.2009

Name of CRO	No. of companies availed CRS	No. of returns filed
Lahore	1,034	4,401
Karachi	1,245	4,826
Islamabad	448	1,999
Multan	135	715
Peshawar	200	719
Faisalabad	100	426
Quetta	107	338
Sukkur	14	61
Total	**3,283**	**13,485**

6.8.3 Placement of Standardized Memorandum of Association on Commission's web-site

To facilitate registration of companies, standardized memorandum of associations for 31 sectors were already available on the Commission's web-site. During this period, standardized memorandum of association for 11 new sectors were developed and placed on the web site. These sectors include plastic products, T.V. channels, furniture, mining and quarrying, sports goods, health care, trading, fertilizers, carpets and rugs, food and beverages, printing and publishing sector.

6.8.4 Updated Name Availability Guide

The name availability guide placed on web-site has been updated. This guide is intended for those persons who are desirous of forming a company, to help them in understanding the process of choosing an appropriate name for their company in order to save time and efforts. The guide contains list of prohibited words and complete online and offline step wise procedures.

6.8.5 Revision of policy regarding prohibited words

Policy relating to prohibited words in the names of companies was reviewed and unnecessary restrictions were removed. Revised policy was placed on the website.

6.8.6 Monitoring of disposal of application within the prescribed time frame

Monitoring section was established at the HO to ensure the disposal of applications within the time frame provided under the CRO Regulations.

6.9 Future Plans

6.9.1 Development of Legal Framework

(a) Draft Associations not-for-profit (Licensing and Corporate Governance) Regulations

Draft Regulations for associations not-for-profit would be finalized and notified, which contain the regulatory framework, requirements and specifically the provisions of the Code of Corporate Governance proposed to be applicable on the associations not for profit.

(b) Draft Public Sector Companies (Corporate Governance) Regulations

Regulations would be finalized to extend the provisions of the Code of Corporate Governance to public sector (state-owned) companies.

(c) Amendments in the Second Schedule to the Ordinance

Amendments would be finalized in Part II of the Second Schedule to the Ordinance, relating to form of Statement in Lieu of Prospectus, to simplify its requirements.

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

Amendments in Companies (General Provisions and Forms) Rules, 1985, would be finalized to remove the practical difficulties faced in eServices regime as well to make the online filing mandatory for certain class of companies in a phased manner.

(e) Amendments in Single Member Companies Rules, 2003

Amendments in Single Member Companies Rules, 2003 would be finalized to simplify the procedures for Single Member Companies.

(f) Amendments in Companies Registration Office Regulations 2003

The Companies Registration Office Regulations, 2003 would be updated to customize its various provisions in line with the eServices regime, including online registration of companies and other functions performed by the concerned registrars.

6.9.2 Enhancing the use of Technology

(a) eServices Project

To further facilitate the companies as well as the CROs in the eServices regime, the following activities will be undertaken:

- **Online Payment System**

Online payment system would be made available to expedite the processing of applications.

- **Electronic Inspection of Records**

To facilitate the public in inspecting the records/documents submitted by the companies an electronic inspection of records system would be implemented.

- **Foreign Companies Module**

A separate module for recording the returns of Foreign Companies would be implemented.

- **Module for Miscellaneous Items**

Miscellaneous items with or without Challan module for the functions for which the processes were not developed in eServices (CROs as well as HO), will be developed.

- **Role of e-intermediary in eServices**

The concept will be studied by the Registration Department and implemented if possible.

- **Standard Operating Procedures**

Standard operating procedures for all the processes in the eServices regime will be developed.

(b) Shifting of record of dead companies to CRO Islamabad and its scanning

According to the plan, record of all the dead companies of all the CROs shall be transferred to CRO Islamabad. After scrutiny, record of all the companies dissolved earlier than three years will be scanned and destroyed as per policy.

(c) Interface to link archived version and the documents attached in eServices

Presently documents are viewed in two separate interfaces. One is for the documents scanned through eServices and other is for the archived documents scanned through scanning and archiving project. In order to locate any particular document both the interfaces are searched separately. To save time both the interfaces will be linked together, to view documents through single channel.

(d) Modification of all the modules for adjudication of delays in case of acceptance and not in case of rejection

Separate module will be developed for the adjudication matters.

(e) Placement of templates in respect of cases not acknowledged

The possibility of placement of standard templates against all the processes, at issue resolution stage shall be explored in respect of all cases not acknowledged.

(f) Data Sharing

Efforts would be continued for sharing of information /data with FBR and other agencies including NADRA to develop a national data pool of corporate sector.

(g) Improvement of the Diary system

The diary system of CRCS shall be reviewed, for addition of remaining functions, to improve the efficiency and reporting requirements.

6.9.3 Quality Assurance

The ISO 9001:2008 certification will be obtained for the CROs of Karachi, Lahore and Islamabad. The certification would achieve the following objectives:

- Enhance the image of Commission in its service delivery;
- Improve the quality of existing processes and services to the public; and
- Increase public satisfaction through removal of deficiencies/ gaps in service delivery

6.9.4 Capacity Building

Training needs of the officers/ staff of Registration Department and the CROs would be identified and adequate training would be imparted to the officers and staff as an on-going process. In-house training sessions shall be conducted by CRO incharge(s).

6.9.5 Public Facilitation

(a) Launching of facilitation schemes

- Companies Easy Exit Scheme

After completion of Companies Regularization Scheme, the Companies Easy Exit Scheme will be launched, to provide an opportunity to the dormant companies to get their names struck off from the register of the companies.

- Fast Track Registration

Idea of launching a scheme for fast track registration would be analyzed. This scheme will enable registration of a company on fast track basis.

(b) Publication of Guide Booklets

In order to facilitate the corporate sector and to create public awareness on various statutory matters, the Commission launched a series of guide booklets.

During FY 2009-10, revision of following existing guides shall be made:

- Promoters' Guide in English, Urdu, Chinese and Arabic
- Single Member Company Guide

The following new booklets shall be published:

- Complaint lodging and redressal
- Meetings and resolutions of a company
- Change of a company name
- Filing of statutory returns
- Board meetings and resolutions
- Transfer and transmission of shares
- Allotment of shares
- Auditors' guide

(c) Seminars on eServices and Corporatization

Awareness seminars on eServices and corporate legal status will be continued and arranged in different cities.

(d) Media Campaign

Public awareness notices will continue to be issued in newspapers on annual returns filing, schemes launched by the Commission and illegal business activities.

(e) Standardized Memorandum of Association

Standardized Memorandum of Association for remaining sectors shall be developed and placed on the Commission's web site for public facilitation.

ENFORCEMENT DEPARTMENT


Officers of Enforcement Department with ED Mr. Tahir Mehmood


Enforcement Department

6.10 Performance Review

During the year, Enforcement Department (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 unauthorized inter-corporate financing, irregularities relating to employees' provident fund accounts and non-compliance of other statutory provisions.

EnfD reviews financial statements to ensure that these 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.

6.11 Regulatory Actions

6.11.1 Approval for Placement of Quarterly Accounts on Websites of Companies

To have the information readily available 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 20 companies were granted permission in addition to 225 companies already permitted in previous years to place their quarterly accounts on their websites instead of circulation by post to the members.

6.11.2 Approval for Appointment of Cost Auditors

During the year, 60 applications for the appointment of cost auditors were approved under the cost accounting record orders in respect of vegetable ghee, cooking oil, cement and sugar industries.

6.11.3 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 rights shares more than once in a year or want to raise their capital without the offer of right shares, they have to obtain permission from the Commission. During the year, the department received 23 applications seeking approval of the Commission for issue of capital and relaxation from the requirements of the Companies (Issue of Capital) Rules 1996. Out of which 19 companies were allowed to raise capital amounting to Rs. 45.533 billion. Applications received for approval were disposed off as follows:

- **Issue of Shares without Right**

Ten applications were received from companies requesting to allow them to issue shares otherwise than rights to the existing shareholders. Seven applications were disposed off by allowing the companies to issue shares worth Rs.878.634 million against conversion of loans from the sponsors. Whereas in one case the company was not allowed to issue shares, otherwise than right to its associated company as the proposed scheme of arrangement was not found to be in the interest of shareholders and two companies were advised to comply with the relevant regulatory requirements in order to proceed further with their applications.

- **Issue of Preference Shares**

Three listed companies were given approval to issue preference shares to raise their total capital amounting to Rs.7.693 billion. Two of the companies proposed to issue the said shares to sponsors and strategic investors while one company proposed to issue the said shares to their existing share holders by way of right.

- **Relaxation of Rules**

Ten applications were received from listed companies regarding relaxation from the requirements of the Companies (Issue of Capital) Rules, 1996. The Commission after comprehensive examination and keeping in view the circumstance of cases relaxed the requirements of law for nine companies enabling them to raise capital worth Rs. 36.961 billion whereas in one case, information provided by the company was deficient which has been called.

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

During the year, 36 listed companies applied for extension in time for holding of AGMs, out of which 30 companies were allowed extension whereas 6 applications were rejected for different reasons.

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

During the year, 5 companies applied for approval for holding of AGMs in towns other than those where their registered offices were situated. Out of which approval were granted to 4 companies having regard to justification provided whereas 1 application was rejected.

6.11.6 Approval for Loans to Directors

During the year, 6 applications for approval of the grant of loans to directors of the companies for the purpose of acquisition of land, house and hiring/leasing of living accommodation were received. Approvals were granted in all cases.

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

During the year, 2 companies submitted applications for grant of exemption from attaching consolidated financial statements. Approvals were granted to both the companies as the requests were justified.

6.12 Monitoring and Enforcement Actions

During the year, financial statements of the listed companies were reviewed and 197 companies were asked to provide explanations with regard to the various observations made during the review and cognizance of the default was taken on the various issues.

6.12.1 Investigations into the Affairs of Companies

During the year, 2 cases of investigation were dealt with. Proceedings against a company were initiated on receipt of applications from members of a company having voting rights of more than 10% in the company while in the other case, on-site inspection under section 231 of the Ordinance was conducted to find out the nature of transactions relating to acquisition of a sugar plant by a textile company and provision of funds to the affiliated company for acquisition of another sugar plant. While inspecting the books and papers of the company the modalities of the transactions were unearthed, and their impact on the financial health of the company was evaluated. An order of investigation under section 263 of the Ordinance was passed on the basis of inspection report under section 231 of the Ordinance. The directors filed review petition in the matter of order for investigation. The appeal for review was rejected and order under section 263 of the Ordinance was upheld. Investigation was carried out and violation of law was noted. The investigation report under section 269 of the Ordinance was concluded and a fine of Rs.2.9 million was imposed on the directors which was deposited by all the seven directors. The case was closed on conclusion of investigation report. Proceedings in the other matter of investigation were in process of finalization.

6.12.2 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 audit opinion.

During the year, an aggregate fine of Rs.325,000 was imposed on partners of 4 audit firms while in 4 cases warnings were issued. However, proceedings in 11 cases were in process of finalization.

6.12.3 Inspections

The books of account and books & papers of every company are open to inspection by the registrar or by any officer authorized by the Commission in this behalf.

During the year, inspection in the matter of 12 companies were ordered on account of non-holding of AGM, failing to hold election of directors, failing to conduct audit of the company, auditor's failure to verify assets of the company, misrepresentation of amount of paid-up capital by a company to CDC, misuse of company funds, unusual transaction with associated concerns, qualifications of auditors and disclaimer of opinion given by auditors on books of accounts. As a result of inspections, further proceedings under various provisions of the Ordinance were initiated against non-compliant companies.

6.12.4 Irregularities in Provident Fund

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

During the year, a fine of Rs.72,500 was imposed on chief executives of 7 companies while in 4 cases warnings were issued. However, proceeding in 1 case was in the process of finalization.

6.12.5 Irregularities in Utilization of Amount of Security Deposits received from Dealers

No company, officer or agent of a company, shall receive or utilize any money received as security or deposit, except in accordance with a contract in writing, and all moneys so received shall be kept or deposited by the company or the officer or agent concerned, as the case may be, in a special account with a scheduled bank.

During the year, an aggregate penalty of Rs.10,000 was imposed on the chief executives of 2 companies while in 3 cases warnings were issued.

6.12.6 Inter-Corporate Financing

Efforts under the Ordinance were geared up to deter unlawful inter-corporate financing in violation of section 208 of the Ordinance. Necessary steps were taken in order to curb the misuse of company funds, unauthorized investments by companies in associated undertakings, non-receipt of trade debt and non-charging of any interest on the amount advanced to the associated companies.

During the year, an aggregate penalty of Rs.6.85 million was imposed on directors of 9 companies while in 4 cases warnings were issued. However, proceedings in 15 cases were in the process of finalization.

6.12.7 Disposal or Leasing out of Company's undertaking without Shareholders' Approval

The directors of a public company or of a subsidiary of a public company are not allowed under the law to sell, lease or otherwise dispose of the undertakings or a sizeable part thereof unless the main business of the company comprises of such selling or leasing except with the consent of the general meeting either specifically or by way of an authorization.

During the year, a penalty of Rs.7.355 million was imposed on directors of 8 companies while in 2 cases warnings were issued. However, proceedings against 10 companies were in process of finalization.

6.12.8 Making of False/Incorrect Statements in Documents

Whoever in any return, report, certificate, balance sheet, profit and loss account, income and expenditure account, prospectus, offer of shares, books of accounts, application, information or explanation required by or for the purposes of any of the provisions of the Ordinance or pursuant to an order or direction given under the Ordinance makes a statement which is false or incorrect in any material particular, or omits any material fact knowing it to be material, is punishable.

In a case, misstatement was observed regarding conversion of raw material of the company into work–in-process while on inspection under Section 231 of the Ordinance it was noticed that huge quantity of raw material was lying at the factory premises. A penalty of Rs.2.1 million was imposed on chief executive and directors of the company. In another case, a misstatement was revealed regarding issuance of right shares. It was observed that the company had reported an increase in its share capital whereas right shares were not fully subscribed and no share capital was issued there against. A penalty of Rs.1.96 million was imposed as a result of default. Moreover, an aggregate penalty of Rs.1.96 million was imposed on directors of 2 companies whereas in 3 cases warnings were issued. However, proceedings against 10 companies were in process of finalization.

6.12.9 Withholding of Company Property

During the year, a fine of Rs.10,000 was imposed on director of a company who was collecting the rental amount of the company property in his own name and was keeping it un-disclosed in the accounts of the company. He was advised to rescind said agreement in his name and make a fresh agreement in the name of company with due approval of shareholders.

6.12.10 Surplus arising out of Revaluation of Fixed Assets

Where a company revalues its fixed assets, the increase in, or sums added by writing-up of, the value of such assets as appearing in the books of accounts of the company are transferred to an account to be called "Surplus on Revaluation of Fixed Assets Accounts" and shown in the balance-sheet of the company after Capital and Reserves.

During the year, 3 cases of default were dealt with. In a case warning was issued whereas proceedings against 2 companies were in process of finalization.

6.12.11 Improper Issue, Circulation or Publication of Balance-Sheet or Profit and Loss Account

If any copy of a balance-sheet is issued, circulated or published without there being annexed or attached thereto, as the case may be, a copy each of (i) the profit and loss account or income and expenditure account (ii) any accounts, reports, notes or statements referred therein, (iii) the auditor's report and (iv) the director's report, the company and every officer of the company who is knowingly and willfully in default are punishable with fine which may extend to Rs. 5,000.

During the year, a penalty of Rs.5,000 was imposed on chief executive of a company while in another case warning was issued. However, proceedings against 2 companies were in process of finalization.

6.12.12 Grant of Loans to Directors by Companies

During the year, proceedings against a company was initiated observing that it has granted loan to its chief executive without approval of the Commission and failed to file particulars with the concerned Registrar. However, warning was issued in the matter and directed to ensure implementation of laws, rules, regulations in their true letter and spirit.

6.12.13 Qualifications of Company Secretary and Appointment of independent Share Registrar

During the year, 10 cases of defaults were dealt with wherein companies had made appointment of company secretaries whose qualification did not match with those prescribed under the law and failed to appoint independent share registrar possessing such qualifications as specified by the Commission. A penalty of Rs.45,000 was imposed on chief executives and directors of 2 companies while in 2 cases warnings were issued. However, proceedings initiated against 6 companies were in the process of finalization.

6.12.14 Non-circulation of Increase in Chief Executive's Remuneration in the Directors' Report

During the year, a penalty of Rs.5,000 was imposed on the chief executive of a company while in 7 cases warnings were issued. However, proceedings initiated against 6 companies were in the process of finalization.

6.12.15 Non-disclosure of Information in Case of Special Business

During the year, 200 notices of special business were examined. In 14 cases, vital information was found deficient/absent in notices of Annual General Meetings ("AGM") and Extraordinary General Meetings ("EOGM"). 14 companies were directed to circulate relevant information to the shareholders by way of addendum to the notices earlier issued. An aggregate penalty of Rs.145,000 was imposed on directors of 4 companies while in 3 cases warnings were issued. However, proceedings against 4 companies were in the process of finalization.

6.12.16 Non-circulation of Quarterly Accounts

A total of 1,694 quarterly accounts of listed companies were due to be filed during the year. As many as 1,346 such accounts were filed exhibiting 79 percent compliance rate.

During the year, an aggregate penalty of Rs.2.725 millon was imposed on directors in 21 cases while in 8 cases warnings were issued. However, proceedings in 39 cases were in the process of finalization.

6.12.17 Non-holding of AGM

During the year, an aggregate penalty of Rs.550,000 was imposed on directors of 6 companies for failure to hold AGMs and late holding of AGMs while in 4 cases warnings were issued. However, proceedings in 14 cases were in the process of finalization.

6.12.18 Non-publication of Notices of EOGM and AGM in National Daily's

In addition to the requirement to issue notices of AGM and EOGM, notices are also required to be published in at least one issue each of a daily newspaper in English and Urdu language having circulation in the Province in which the stock exchange on which the company is listed.

A penalty of Rs.10,000 was imposed on chief executive of a company for non-compliance of the aforesaid requirements whereas warnings were issued in 8 cases. However, proceedings in 4 cases were in the process of finalization.

6.12.19 Direction of the Commission for Holding of Annual General Meeting (AGM)

During the year, 13 companies were given direction by the Commission to hold overdue AGMs.

6.12.20 Penalty for Default in Complying with the Directions of the Commission for Holding of AGM

During the year, a penalty of Rs.29,000 was imposed on chief executive of a company for non-compliance with the direction of the Commission for holding of AGM whereas, in another case warning was issued. However, proceedings in 3 cases were in the process of finalization.

6.12.21 Non- Holding of Election of Directors within Prescribed Period

A penalty of Rs.5,000 was imposed on chief executive of a company who failed to express in notice of EOGM to the members the number of fixed elected directors, and also failed to express in the notice received by the company from the retiring directors of their intention to offer themselves for election. The management of the company also failed to transmit notice to members while in 2 cases warnings were issued. However, proceedings in 5 cases were in the process of finalization.

6.12.22 Quorum for a Meeting of Directors of a Listed Company

The quorum for a meeting of directors of a listed company shall not be less than one-third of their number or four, whichever is greater and the directors of a public company are required to meet at least once in each quarter of a year.

During the year, a penalty of Rs.79,000 was imposed on directors of 3 companies for committing the default while in 2 cases warnings were issued. However, proceedings in 2 cases were in the process of finalization.

6.12.23 Restriction on Director's Remuneration

The remuneration of a director for performing extra services, including the holding of the office of chairman, shall be determined by the directors of the company in general meeting in accordance with the provisions in the company's articles. A penalty of Rs.20,000 was imposed on the chief executive and a director of the company.

6.12.24 Non-Compliance with Directives of the Commission

Where any directive is given or order is issued by the Court, the officer of the Commission, the Registrar or the Federal Government under any provision of the Ordinance, non-compliance within the period specified in such direction / order is punishable, in addition to any other liability with fine.

During the year, an aggregate penalty of Rs.485,000 was imposed on directors of 4 companies while proceedings in 5 cases were in process of finalization.

6.12.25 Enforcing Compliance with Provisions of Ordinance

During the year, the department, after observing different defaults, issued directions and notices to 25 companies to make good of 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 observation of auditors, non-disclosure of material facts in the notices of AGMs and EOGMs, failure to maintain the fixed assets register, non-provisioning of doubtful trade debts and non-settlement of long term liabilities and failure to obtain approval of the Commission for entering into the distribution agreement for appointment of an exclusive distribution agent of the company.

6.12.26 Dividend to be Paid only out of Profits

No dividend shall be paid by a company otherwise than out of profits of the company. A fine of Rs.100,000 was imposed on the chief executive of the company whereas proceedings in another case were in process of finalization.

6.12.27 Issue of Bonus Shares by Listed Companies

During the year, proceedings were initiated against 2 companies for failure to comply with the requirements of the Companies (Issue of Capital) Rules, 1996 for issue of bonus shares and the same were in process of finalization.

6.12.28 Non-Compliance of Provisions of Law while Deciding to Increase Capital of a Company

During the year, a fine of Rs.1 million was imposed on the chief executive of a company for issuance of ordinary shares under employees stock option scheme without approval of the Commission whereas proceedings in another case was in process of finalization.

6.12.29 Ineligibility of Certain Persons to become Director of a Listed Company

No person is eligible for appointment as a director of a company if he is engaged in the business of brokerage, or is a spouse of such person or is a sponsor, director or officer of a corporate brokerage house.

During the year, proceedings against 34 persons were initiated who have disregarded the provisions of the Ordinance. Out of which warnings were issued to 17 persons for non-compliance of the aforesaid provisions of law while proceedings against 17 persons were in process of finalization.

6.12.30 Submission of Additional Statements of Accounts and Reports on Directive of the Commission

During the year, an aggregate penalty of Rs.40,000 were imposed on chief executives and company secretaries of 4 companies for non-compliance of directives of the Commission while warnings were issued in 2 cases. However, proceedings in 1 case was in process of finalization.

6.12.31 Actions under Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Ordinance 2002 (The "Takeover Ordinance")

The Takeovers Ordinance creates a regime which ensures fair and transparent takeover of the listed companies. The Takeover Ordinance in conjunction with Listed Companies (Substantial

Acquisition of Voting Shares and Takeovers) Regulations 2008 (the "Takeover Regulations 2008") provides for an equivalent and fair opportunity to the investors to acquire the substantial voting rights of the listed companies simultaneously safeguarding the rights of the minority shareholders. During the year, public announcement of intention/offer by various Acquirers under the Takeover Ordinance were made in 6 cases. The detail of these public announcement of intention/offer are attached (Table-20). A number of cases were indentified and appropriate actions were taken.

During the year, a fine of Rs.11.6 million were imposed in 6 cases. However, proceedings in 5 cases were underway at the end of the year.

6.12.32 Late Submission of Applications for Appointment of Cost Auditors and Cost Audit Reports

During the year, a penalty of Rs.68,000 was imposed on directors of 4 companies for non-compliance with the provisions of the Companies (Audit of Cost Accounts) Rules, 1998 whereas warnings were issued in 4 cases. However, proceedings in 3 cases were in process of finalization.

6.12.33 Non-provision of information in the cost audit report required under the Companies (Audit of Cost Accounts) Rules, 1998

During the year, proceedings were initiated against 2 companies and a cost auditor for failure to submit detail of overheads, full information and explanation on reservation made by cost auditors and reconciliation of the cost accounts with the audited financial accounts. Proceedings in all these 3 cases were in process of finalization.

6.12.34 Winding-up of Companies

During the year, nine cases were dealt with wherein the concerned registrars had sought sanctions of the Commission for filing of winding up petitions in the respective High Courts against companies which had defaulted in holding two consecutive AGMs or had suspended business for more than one year. In 4 cases, concerned registrars have been authorized to file petitions in the respective Hon'ble High Courts for winding up of these companies. However, proceedings against 5 companies were in the process of finalization.

6.12.35 Investors' grievances against companies

During the year, the department resolved 1140 complaints out of 1195 whereas comments on remaining 55 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 and wrongful deduction of Zakat, other miscellaneous complaints relating to the non-holding of AGM, non-circulation of notice of meeting etc.

Moreover, proceedings were initiated against 4 companies which failed to transfer the shares and failed to issue the bonus. Out of these, 2 companies were directed to resolve the complaints, 1 company complied with the direction and resolved the complaint whereas other has filed an appeal before the Appellate Bench. However, proceedings against 2 companies were in process of finalization.

6.13 Development of Regulatory Framework

6.13.1 Amendments in Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Regulations, 2008

The department revisited the Takeover Regulations after receiving feedback from the stakeholders that these were investor unfriendly and served a deterrent to investment in the capital markets. Amendments vide notification dated June 23, 2009, in the Takeover Regulations were made subsequent to a detailed study of takeover regimes in other jurisdictions. The amendments are aimed at reviving the national economy, facilitating rehabilitation of sick units and creating an investment friendly climate.

6.14 Future Plans

Enforcement deparment is focused towards continuing the process of reforms, however, there is room for vast improvements. The following areas need to be worked on as part of the Annual Work Plan for 2009-10.

6.14.1 Empowering the shareholders and promoting the Code of Corporate Governance (CCG)

The CCG is a useful tool to channel the shareholders through empowering and educating them. Greater enforceability of CCG in the ensuing year will be another step forward toward shareholders empowerment. Moreover, a help desk can also support facilitation to the shareholders in this regard.

6.14.2 Proactive Enforcement

To make the enforcement function truly effective the focus needs to be shifted towards pre-emptive actions as compared to post-event compliance. The department has been conducting in-house investigations utilizing the resources available within EnfD to ensure free and result-oriented investigations under section 263 and 265 of the Ordinance. Limited scope investigations having a shorter duration under section 231 of the Ordinance have also been undertaken to identify the cause of problems and malpractices by the listed companies. In order to achieve this goal it would be useful to target the following areas:

- Enhancing the skills of the officers/staff working in EnfD through continued trainings, induction of new blood and exposure to the environment within which the listed companies operate.
- Information technology provides new opportunities to increase the efficiency and effectiveness of EnfD. Development of suitable databases and systems would ensure availability of crucial information on a real-time basis.
- Research oriented activities need to be initiated to stay one step ahead of the corporate sector and the elements therein which have a leaning towards perpetrating white collar crimes.

6.14.3 Working to enhance the proficiency of the Auditors' output

It is a well defined function that the auditors perform in the modern free market system, however, any errors of omission and commission, made by the auditors of a company, result in the information being distorted which yields sub-optimal performance of the markets and increased asymmetries of information. This can lead to a vicious spiral, which breeds an environment conducive for abuse by various stakeholders' of their duties/roles, to the detriment of the corporate sector and the shareholders at large. Focusing on this important pillar implies greater interaction with the auditors, seeking frequent feedback and keeping periodic checks on their responsibilities thereby creating greater emphasis on their role. This will not only improve their performance but will also be helpful to establish effective enforcement of laws and accounting standards.

Chapter 6

SECURITIES MARKET DIVISION

SECURITIES MARKET DIVISION

7.1 Introduction

Securities Market Division (SMD) is entrusted with the objectives to develop and promote a fair, transparent and modern capital market in Pakistan, protect investors through a robust regulatory framework, efficient enforcement program and facilitate capital formation.

SMD is committed to accomplish its objectives by instituting effective regulation and bringing in reforms to ensure fair and transparent market, ascertain effective risk management and promote good governance to strengthen investors confidence. SMD regulates the primary and secondary market activities, as well as market intermediaries with the objective of protecting investors through registration, surveillance, investigation, enforcement, compliance and rule making. SMD processes and grants approvals of prospectuses for public offerings and performs the oversight function for monitoring the working and activities of stock exchanges, commodity exchange and other capital market institutions like Central Depository Company, National Clearing Company and credit rating companies.

7.2 Operational Structure

7.2.1 Structure

SMD is divided into following wings:

- Stock Exchanges Wing
- Monitoring and Surveillance and Beneficial Ownership Wing
- Capital Issues Wing
- Brokers Registration and Investor Complaints Wing

7.2.2 Management Team

Mr. Muhammad Sohail Dayala, Commissioner, oversees SMD. Mr. Akif Saeed, Executive Director, is heading SMD team which consists of various professionals including chartered accountants, financial analysts, management accountants and business graduates.

Officers of Securities Market Division with ED Mr. Akif Saeed

Securities Market Division

7.3 Capital Market Overview

The benchmark KSE 100 Index experienced a downslide throughout FY 2009. On the onset of the fiscal year, KSE 100 index slithered due to numerous factors including world-wide economic recession, depreciation in Pak Rupee, appreciation of prices of oil and metal, and increase in inflation in the months to follow. The falling trend in PKR/USD parity and tightening of monetary policy had put the pressure on stock markets leading to capital flight. As a result of depreciation of the local currency, foreign investors kept withdrawing their investments from our local markets. As the liquidity in the stock market dried up, the downslide continued.

With six consecutive negative sessions, the KSE 100 index had declined by 23.3% by August 26, 2008 since the beginning of the fiscal year, which translated into a decline of 2,859 points. Till August 26, 2008, a total of Rs.833.99 billion (USD 10.96 billion) were eroded from the Market Capitalization since July 2008. Keeping in view the continuous downslide, all three bourses in Pakistan decided to ‘floor’ the price level on August 27, 2008.

In discussion with the representative of bourses, SECP directed the stock exchanges to remove the floor from December 15, 2008. On December 31, 2008, the KSE 100 Index closed at a level of 5,865.01 points. The downward movement of the Index continued in year 2009 with KSE 100 declining to the lowest level of 4,815 points on January 26, 2009, eroding Rs. 2,233.31 billion from the market capitalization since the beginning of fiscal year. Thereon, KSE 100 Index started an upward drive to attain a level of 7,902 points on April 20, 2009.

By the close of FY2009, the KSE 100 Index declined by 41.7% percent on year-on-year basis and closed at 7,162 points on June 30, 2009. Market capitalization of the KSE declined by 43.86% to Rs.2,120.65 billion (USD 26.51 billion).

Figure 1: KSE-100 Index and Daily Turnover at KSE (July 2008 - June 2009)

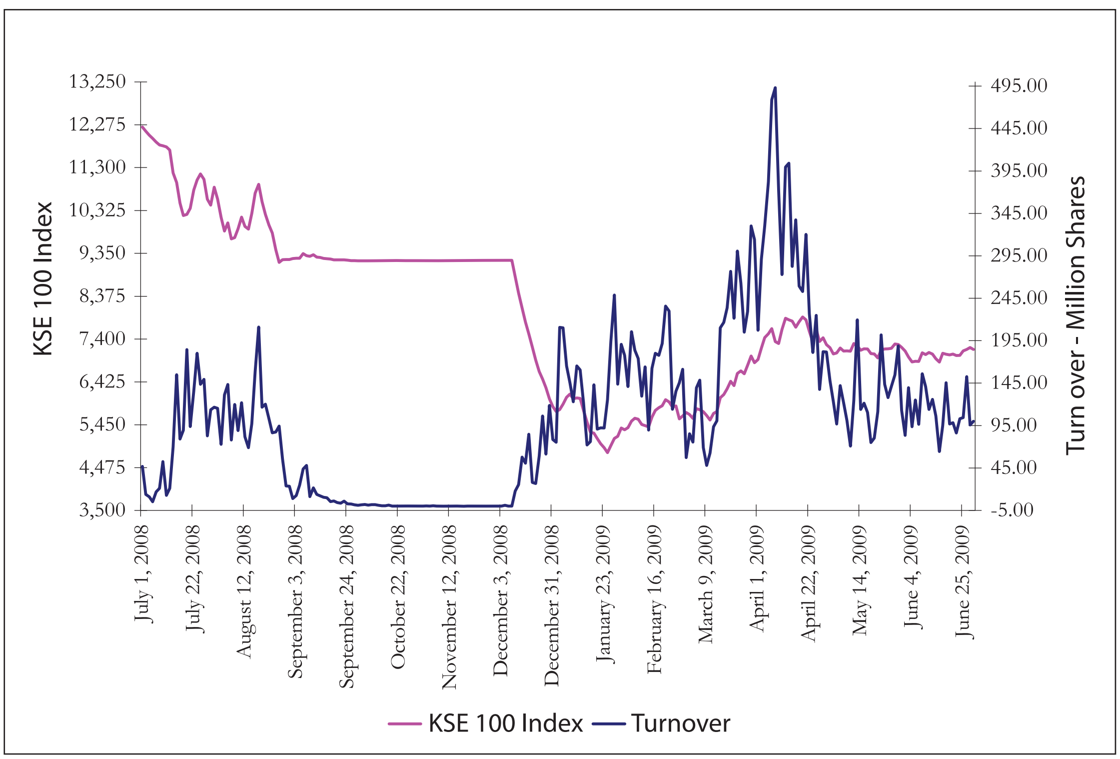
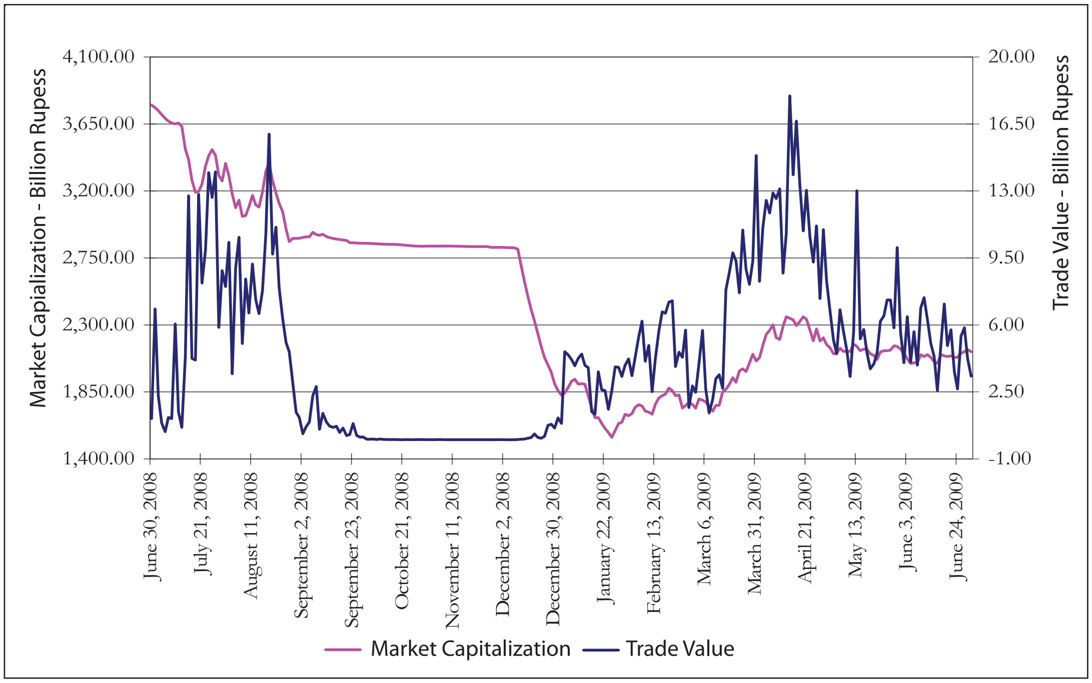


Figure 2: KSE Market Capitalization and Daily Traded Value (July 2008 - June 2009)



7.4 Development of Laws and Regulations

Entrusted with the task of developing a robust, dynamic and efficient capital market, the SMD through various initiatives aimed at ensuring greater transparency, augmenting the risk management capabilities at the stock exchanges and improving price discovery and trade settlement mechanisms, introduced several reform measures to overcome the unique challenges posed to the Pakistani capital market during the period under review and restore investor confidence in the aftermath of the global financial crisis.

The Commission in pursuance of its mandate to develop a fair, efficient and transparent regulatory framework, based on international legal standards, has been approving amendments in the regulatory framework of the capital markets in consultation with the relevant stakeholders.

During the period under review, a number of amendments were approved by the Commission which includes the following:

7.4.1 Amendments in Listing Regulations

- In order to ensure that accounts presented to the Audit Committee and the Board of Directors are reviewed/ audited by the external auditor for enhanced transparency and to bring the provisions of the Code of Corporate Governance in line with the Companies Ordinance, 1984 amendments were approved by the Commission in the Listing Regulations of the Exchanges in August 2008.
- Further, amendments were also approved in the CCG to consolidate all requirements relating to provision of material information by the listed companies/ issuer of listed companies and to remove any duplication of the same within the Regulations.
- In light of the recommendations of the task force jointly constituted by the SECP and the Federal Board of Revenue, amendments pertaining to Transfer Pricing in

the Listing Regulations were approved for the stock exchanges in the first quarter of 2009.

- In May 2009, various amendments pertaining to enhancement/ rationalization of fees and penalties being imposed by the Exchanges; establishment of Defaulters' Segment and Non-Compliant Segment in place of Defaulters' Counter were approved by the Commission. The introduction of the said segments provide for a mechanism to the Stock Exchanges for effectively addressing irregularities/ defaults committed by the listed companies in relation to requirements laid down in the Listing Regulations of the Exchanges.

7.4.2 Amendments in Regulations Governing Risk Management

- In August 2008, approval was accorded to amendments in these Regulations of LSE and ISE pursuant to the launch of the CFS Mk-II in these markets, and to bring them in line with the Regulations of KSE.
- In order to strengthen risk management at the stock exchanges level, the Commission, in the last quarter of 2008, approved certain amendments in the Risk Management provisions of the stock exchanges in relation to VAR based margins, form of exposure margins, Mark-to-Market Losses and special margins and revised position limits in Deliverable Futures Market.
- Amendments in regulations restoring the Bid/Offer Mechanism for determination of closing price were carried out in first and second quarter of 2009. The amendments restored the said mechanism for closing price to ensure price adjustment and normalize trading activities in all scrips.
- For improved risk management the Commission in February 2009, approved amendments in the Risk Management Regulations of KSE for collection of margins in cash in derivative markets. The same were approved for LSE and ISE in May 2009.
- In June 2009, amendments were approved for KSE allowing utilization of basic deposits as exposure margins to facilitate the members, in light of the recommendations of the CFS Mk-II Review Committee.
- Amendments were approved for KSE in May 2009, relating to Net Capital Balance Certificate and introduction of Pre-Settlement Delivery Mechanism in the Markets. These amendments will enhance the risk management at the exchanges by requiring the members to submit Net Capital Balance Certificate to the Exchange biannually certified by an auditor selected from the panel of auditors specified by the Exchange and facilitate the members by reducing the member wise margin requirement in case of pre settlement delivery.

7.4.3 Amendments in Regulations governing System Audit of Brokers

In order to harmonize Regulations governing System Audit of Brokers and to bring them in line with the provisions of the General Regulations of the exchanges, amendments were approved by the Commission in relation with trading by employees of brokerage houses for KSE in January 2009 and for LSE and ISE in May 2009.

Along with the above mentioned amendments, additional amendments pertaining to prohibition of In-House Badla, UIN verification and compliance with Internet Trading Guidelines were also approved for LSE and ISE, which had earlier been approved for KSE. These amendments serve to broaden the scope of audit of the brokers and thereby provide for more effective compliance mechanism.

7.4.4 Amendments in Unified Trading System Regulations

In February 2009, the Commission granted approval to amendments in the Unified Trading System Regulations of LSE and ISE, to cater for the need for meeting any clearing shortfalls from the existing Members' Contribution Fund. These amendments also enforce distinguished parameters needed to meet the clearing defaults of the members of the respective exchanges, in view of the difference in the magnitudes of the respective fund sizes of LSE and ISE.

7.4.5 Amendments in General Regulations

- In order to ensure improved transparency to mitigate chances of market abuse, the Commission approved amendments pertaining to trading by employees of brokerage houses in the General Regulations of KSE in November 2008. These amendments require employees of brokerage house to trade only through their own brokerage houses and ensure maintenance of a database by the exchange containing details of all brokerage houses' employees. Similar amendments in regulations were approved by the Commission for LSE and ISE later in June 2009.
- For expeditious resolution of investors' claims against members and for an effective arbitration procedure, amendments were approved for KSE in June 2009 and are in process of approval for LSE, thereby giving the exchanges powers to waive off arbitration fee on case to case basis and to verify genuineness of investors' claims by inspecting books and records of any Member.

7.4.6 Amendments in Regulations governing Short Selling

With a view to prevent market abuse and enforce stringent penalties in case of violation of Regulations governing Short Selling by a member/ investor, amendments were approved by the Commission in these Regulations for the stock exchanges in May 2009. Additionally these amendments now empower the Exchange to temporarily suspend short selling with prior approval of the Commission.

7.4.7 Amendments in the Regulatory Framework of LSE and ISE

In order to ensure that stock exchanges operate under a harmonized and uniform set of rules and regulations, a comprehensive exercise was carried out by the Commission whereby numerous amendments were approved in Regulations of LSE and ISE in December 2008.

7.4.8 Amendments in the CDC Regulations

During the period under review, approvals were granted for various amendments in CDC Regulations to ensure continuous reforms in the regulatory framework. These included approval for amendments relating to prohibition of street name securities, restriction on transfer of securities through free delivery in CDS, and revocation of securities etc.

7.4.9 Amendments pursuant to discontinuation of CFS Mk-II and Deliverable Futures Market

Necessary amendments were carried out in the NCCPL Regulations, 2003, the CDC Regulations and Regulations governing Deliverable Futures Contract Market of the stock exchanges for harmonization purposes pursuant to the discontinuation of the Deliverable Futures Contract Market and the CFS Mk-II Market.

7.5 Development of New Products and Systems

7.5.1 Introduction of CDC Standardized Sub-Account Opening Form

The stock market situation in 2008 highlighted issues of unauthorized pledge of clients' securities by a number of brokers/ CDC participants during the period of the floor and subsequent to restoration of the market operations. A number of instances were noted where the CDC participants misused the book-entry securities entered into the sub-accounts, taking advantage of the terms and conditions contained in their respective CDC sub-account opening forms.

To address this undesirable situation, the Commission formed a Committee comprising of relevant stakeholders to introduce a standardized Sub-Account Opening Form (SAOF) for opening of sub-accounts at CDC. After extensive consultation with all major stakeholders including the State Bank of Pakistan, Pakistan Banking Association, Stock Exchanges, NCCPL and CDC, the Commission directed the implementation of the SAOF for all new accounts effective June 15, 2009 whereas all existing operating accounts were to be brought in line with the SAOF till December 31, 2009. The SAOF not only brings in more clarity and transparency with regards to the rights and obligations of the participant and the sub-account holders but also seeks to cater to the need of strengthening Know Your Customer (KYC) procedures in the capital market in line with best practices under the AML regime.

7.5.2 Introduction of new NCEL Contracts

During the year under review, the National Commodity Exchange Limited (NCEL), which is Pakistan's first electronic commodities futures exchange, renewed its product portfolio to cater for the hedging and speculative needs of various target groups. The new products range is largely dominated by Gold Commodity; however the products contain different specifications to attract interests of various investor groups. With a view to provide diversified investment opportunities for the capital market players, the Commission, during the period under review, accorded approval for listing of following products on the NCEL:

- NCEL 3 Months KIBOR Futures Contract
- NCEL Weekly 100 gm Futures Contract
- NCEL 10 Tola Futures Contract
- NCEL Weekly IRRI-6 Rice Futures Contract
- NCEL 100 Tola Futures Contract
- NCEL One Kilo Tola Futures Contract
- NCEL 50 Tola Futures Contract

7.6 Issue of Capital

SMD deals with the approval of prospectuses and offer for sale documents for public offer of securities. It 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 multiple applications by a single applicant for subscription of shares.

During the year under review, 4 companies issued or offered shares to the public as compared to 08 in FY2008. New capital of Rs. 3.311 billion was listed in FY2009 as compared to Rs. 19.927 billion in FY2008. Similarly, 3 companies issued debt instruments, i.e. TFCs to the public, as compared to 7 in the preceding year. TFCs of Rs 10.100 billion were listed during FY2009 as compared to Rs 22.500 billion in FY2008. For details refer to Table 1 & 2.

Table-1 EQUITY (2008-09)

(Rupees in Million)

S.No	Name of Company	Sector	Total Paid-up Capital	Already Paid-up Capital	Capital Offered (IPO)	Premium per share (Rs.)	Capital offered with premium	Subscription Received against IPO	Over/ (under) subscribed %
1	First Credit & Investment Bank Ltd.	Inv. Banks/ Inv. Co's/ Sec. Co's	650.000	400.000	250.000	0.000	250.000	19.480	-92.21%
2	Arif Habib Investment Management (Offer for Sale)	Inv. Banks/ Inv. Co's/ Sec. Co's	300.000	300.000	75.000	115.000	937.500	1,028.230	9.68%
3	Descon Oxychem Ltd.	Chemicals	1,020.000	695.000	325.000	0.000	325.000	347.215	6.84%
4	Media Times Ltd.	Tech. & Comm.	1,341.382	1,004.782	336.600	0.000	336.60	3.275	-99.03%
	TOTAL		**3,311.382**	**2,399.782**	**986.600**		**1849.100**	**1,398.200**	

Table-2 TFCs (2008-09)

(Rupees in Million)

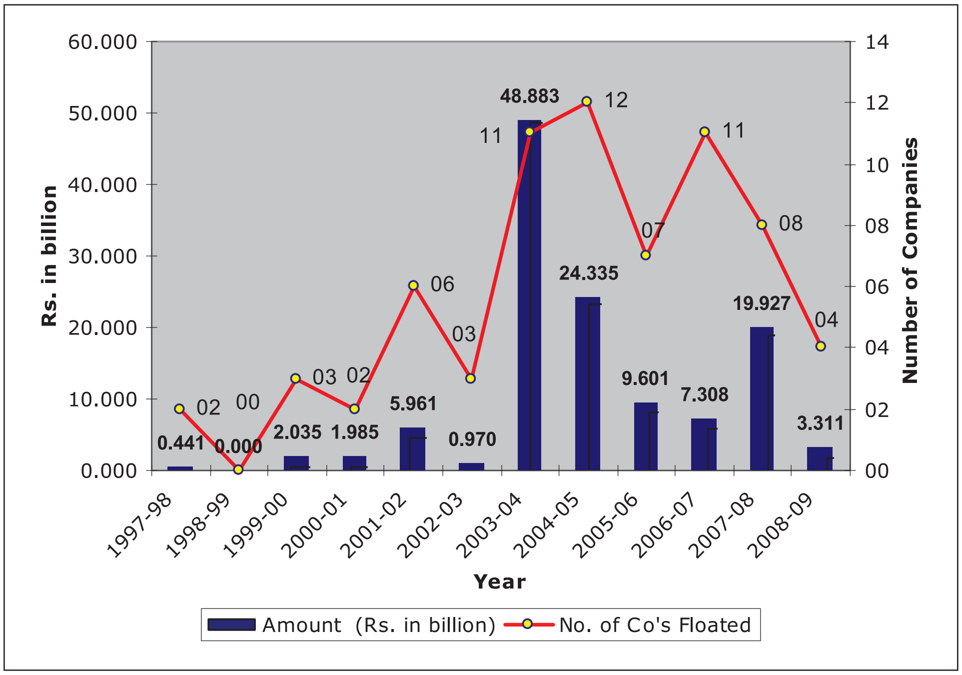
Year	Name of Company	Subscription Date	Total Amount Offered			Subscription Received			Green Shoe Option	Amount Retained
			Pre-IPO	IPO	Total	Pre-IPO	IPO	Total		
2008-09										
1	Trust Investment Bank Ltd.	02-04 July 2008	450.000	150.000	600.000	450.000	33.680	483.680	N.A	600.000
2	WorldCall Telecomm Ltd. (2nd Issue)	06-07 October 2008	3,000.000	1,000.000	4,000.000	3,000.000	16.290	3,016.290	N.A	3,837.690
3	Pakistan Mobile Communications Ltd. (Mobilink) 2nd Issue	27-28 Oct, 2008	4,250.000	1,250.000	5,500.000	4,250.000	6.970	4,256.970	up to Rs.167 million	4,256.970
3	**TOTAL**		**7,700.000**	**2,400.000**	**10,100.000**	**7,700.000**	**56.940**	**7,756.940**		**8,694.660**

(a) Share Capital

Of the 4 equity issues during FY 2009, 3 were fresh through which 91.16 million ordinary shares amounting to Rs. 911.600 million were offered to the general public. Out of 3, 1 issue was oversubscribed, whereas, 2 issues were undersubscribed.

SECP

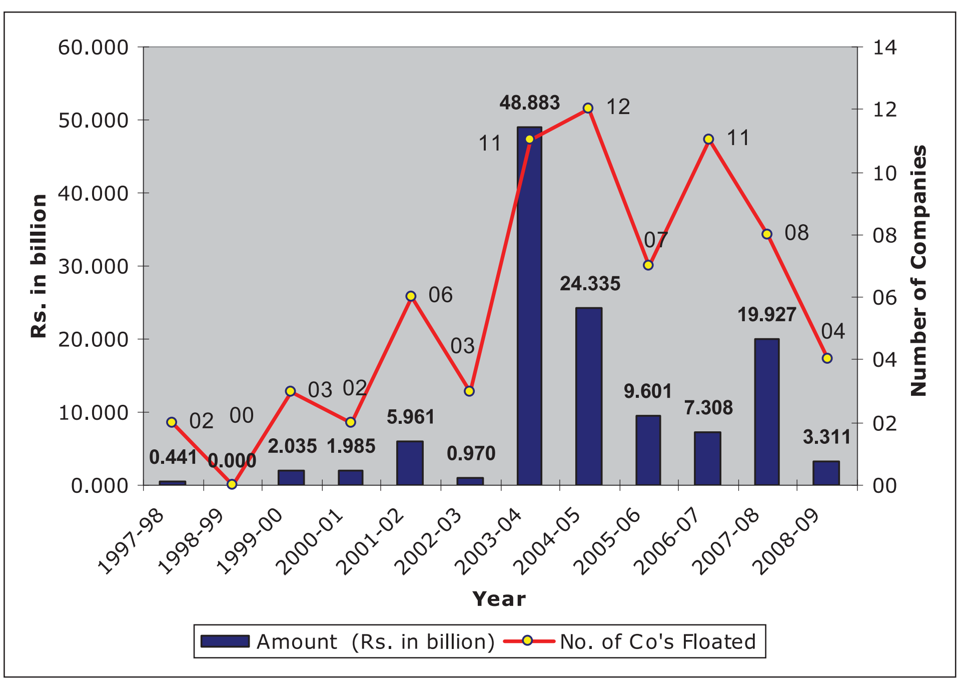
FIGURE 3: Number of Equity Issues to Public during the FYs 1998–2009



(b) Redeemable Capital

During the year under review, 3 companies made public offer of TFCs involving an aggregate amount of Rs. 10.100 billion. An amount of Rs. 8.695 billion was raised of which Rs. 7.700 billion was through private placement and Rs. 0.057 billion was from the general public, while remaining was taken up by the underwriters. All these 3 TFC issues were undersubscribed. Out of the total amount of Rs.103.843 billion, raised since 1995 through listed TFCs, an amount of Rs.64.146 billion is outstanding as on June 30, 2009.

FIGUER 4: TFC Issues Floated During the FYs 1996 – 2009



(c) Section 18A of Securities and Exchange Ordinance, 1969

During the year under review, 149 cases of submission of 302 fictitious or multiple applications for subscription of shares of companies in violation of Section 18A of the Securities and Exchange Ordinance, 1969 were reported in 4 Public Offerings. During the year under review 2,191 orders in respect of 4,296 applications were passed and after being proved as fictitious/ multiple, subscription money from 3,032 applications amounting to Rs.51.207 million was confiscated.

(d) Investor Awareness

During IPOs of shares of various companies, individual investors submit fictitious and multiple applications in complete disregard to the provisions of Section 18A of the Securities and Exchange Ordinance, 1969, which prohibits submission of fictitious and more than one application by same person. For awareness of the general public, the Commission has continued awareness campaign in this regard. This campaign includes publication of Warning Notices (both in Urdu and English Language) in all the leading newspapers at the time of initial public offering of shares. The said warning notices are also issued to all the bankers to the issue for placement of the same on prominent places of the branches of the Banks.

(e) Issue of Securities outside Pakistan

During the year under review, the Commission allowed 1 company to issue and list Global Depository Receipts (GDRs) outside Pakistan under Section 62A of the Ordinance. The detail of the said issue is given below:

S. No.	Name of Company	Nature of Security	Size
1	Kot Addu Power Company Ltd.	Global Depository Receipts (GDRs)	Up to 248.2 million shares (28.2%8 of the paid-up capital of Rs. 8.802 billion.)

(f) Employees Stock Option Scheme

Employees Stock Options are used not only to reward employees but also as retention tools, building up long term loyalty of employees to their workplace. To reward performance, encourage productivity and increase employees' involvement, companies in Pakistan have increasingly started offering stock options to their employees. The Stock Option Schemes are approved by the Commission under the "Public Companies (Employees Stock Option Scheme) Rules, 1999".
During the year under review, SECP approved 6 Schemes in respect of Systems Limited, Netsol Technologies Limited, Avenceon Limited (Formerly Engro Innovative Automation Limited), Engro Energy Limited, Engro Polymer & Chemicals Limited and Engro Foods Limited.

7.7 Registration of Brokers and Agents

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

7.7.1 Brokers

At the end of financial year 2009, total number of brokerage houses registered with the

Commission stood at 321 as compared to 316 at the end of the last financial year. Four individual brokerage houses of the stock exchanges converted their status into corporate entities during 2008-2009. Upon conversion from individual to corporate entities, their licenses as broker were converted from individual to corporate.

Tabel 3: Status-wise detail of registered brokers is given below:

Details	Corporate Brokers	Individual Brokers	Total Brokers
As of 30-06-2008	284	32	316
Cancel	(9)	(4)	(13)
Addition	18		18
As of 30-06-2009	293	28	321

Table 4: Stock Exchange-wise categorization of corporate and individual brokers is as follows: -

Stock Exchange	Corporate Brokers	Individuals	Total Brokers
KSE	167	9	176
LSE	77	17	94
ISE	49	2	51
Total	**293**	**28**	**321**

KSE had 55% of the total brokers registered with the Commission as compared to 29% of LSE and 16% of ISE.

7.7.2 Agents

The statistics with respect to certificates granted to agents as of June 30, 2009 are presented in the table below.

Table 5:

Stock Exchange	Number of Agents as on 30.06.2008	Addition During the Year	Cancellation/ Surrender of Registration	Number of Agents as on 30.06.2009
KSE	481	95	86	490
LSE	190	32	50	172
ISE	26	6	1	31
Total	**697**	**133**	**137**	**693**

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

7.7.3 National Commodity Exchange Limited (NCEL) - Memberships

NCEL brokers are registered under the Commodity Exchange and Futures Contract Rules,

2005. Till date, 283 members have been registered with NCEL as members. During the year under review, rising business at NCEL motivated number of members to get them registered with the Commission under Rule 12 of Commodity Exchange and Futures Contract Rules, 2005. Accordingly, a total of 14 members were registered enable them to trade at NCEL, after taking these into account total number of members registered with the Commission are 74.

7.7.4 Investor Complaints

Quick redressal of investor complaints and grievances is an important instrument in restoring investor confidence. The Commission, as an apex regulator of the capital markets, to get the investors protected from market abuse, employs various means and has framed various Rules and Regulations. The Investor Complaints wing at SECP works in close coordination with the stock exchanges for monitoring and investigating any illegal practice of market intermediaries. In an effort to ensure investors' protection, the Commission has provided the procedure for complaints handling in a guide book, "the Investors' Guide for Lodging Complaints", which is available on the Commissions official website and hard copies at the CROs.

Details of complaints handled by the Commission during the year are given in **Table 3 & 4** below, albeit the data does not capture qualitative improvements in the disposal of complaints which has helped in preventing further abuses in the market.

Table 6: COMPARATIVE ANALYSIS OF COMPLAINTS RECEIVED AND DISPOSED OF AT EACH STOCK EXCHANGE

	KSE	LSE	ISE	TOTAL
No. of complaints brought forward from previous financial year	67	83	13	163
New complaints/claims received during July 01, 2008 - June 30, 2009	368	74	09	451
Total complaints dealt with during July 01, 2008 - June 30, 2009	435	157	22	614
Complaints disposed off (July 01, 2008 - June 30, 2009)	87	40	18	145
Complaints Outstanding as on June 30, 2009	**348**	**117**	**4**	**469**

Table 7: DETAIL ABOUT OUTSTANDING COMPLAINTS

	KSE	LSE	ISE	TOTAL
Complaints Against Five Suspended Brokerage Firms	206	0	0	206
Complaints Against Three Members Suspended/ Declared Defaulter	68	9	0	77
Pending with Stock Exchanges for decision by Arbitrators/ Appeal Committee	31	65	2	98
Pending With Members	35	17	1	53
Pending With Complainants	8	25	1	34
Pending with Commission	0	1	0	1
Total Complaints	**348**	**117**	**4**	**469**

Although the General Regulations of the exchanges specify the course of action to be followed in disputes between brokers and investors, the Commission 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 SECP Act. 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 SECP Act.

7.8 Regulatory Actions

7.8.1 Action against Non- Compliant Brokers/ CDC Participants

During the year a large number of complaints from investors were received in the Commission and KSE against various brokerage houses. These primarily pertained to non-transfer of shares from their sub-accounts. The members were directed to transfer the shares and balances in the investors' accounts. Taking into consideration that no concrete steps were taken by the brokers and they also failed to honour their commitments made with the investors, the Commission issued notices to the brokerage houses to provide them an opportunity of representation. The brokerage houses failed to put forth any concrete time-bound action plans and take tangible measures for the resolution of outstanding investors' claims. Therefore the Commission in the interest of the public at large and for the protection of small investors suspended registration of five brokerage houses. Consequent to suspension of registration of the members of KSE, the Commission has also placed the names of the chief executive officers and nominee directors of these brokerage houses on Exit Control List, as it was feared that in order to protect themselves from prosecution/penalty, they might try to leave the country.

7.8.2 Free Delivery Transactions in CDS

In order to bring in more transparency in the operations of capital markets, particularly in the process of transfers of securities through CDS, the Commission on September 09, 2008 issued instructions to the CDC for the introduction of certain control measures, whereby only transfers representing market based transactions or other prescribed transfers after fulfilling certain pre-requisites were allowed. Subsequently, the CDC Regulations were also modified to incorporate the said measures and processes.

7.9 Monitoring and Inspection

7.9.1 Market Monitoring and Surveillance

An efficient surveillance function is integral to effective regulation, compliance and enforcement and development of fair and transparent market. By elevating the market surveillance function at the Commission with deployment of surveillance software, the Commission is better resourced to fulfill its regulatory obligations. This is also evident from the numerous enforcement actions taken during the period under review. In 7 different cases for violation of securities laws with special reference to short/blank selling, wash trades and frequent deletion of orders, penalties were imposed on members of the stock exchanges, where as in 9 instances warning letters were issued for possible violations of the securities laws. In addition, several investigations are underway into possible instances of price manipulation and insider trading.

7.9.2 Inspections

The Commission declared as compulsory a system audit of the business affairs of the brokerage houses to further improve broker's compliance with the applicable securities laws, rules and regulations of the Commission and the exchanges. The Commission received audit reports relating to 131 brokers from the exchanges and observed that majority of reports showed full compliance by the brokers. Enforcement letters, highlighting the non compliance areas, were sent to the concerned stock exchanges for taking further action under the Regulations in respect of the brokers found non-compliant.

7.9.3 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 purchase and sale made within a period of six months. In compliance with the said provisions of the Ordinance, these beneficial owners are required to tender the said amount of gain to the issuer company and failing that, to the Commission. For the purpose of finding such cases where tenderable gain has accrued, the returns of beneficial ownership, filed in compliance with Section 222 of the Companies Ordinance, are examined. During the year under review, 2012 returns of beneficial ownership were received.

Every listed company is required to file annual returns on Form-A, the prescribed additional information and a soft copy of list of its members. This helps correlation of information.
The position of tenderable gain cases as of June 30, 2009 is summarized below:

Status	No. of Cases
Show Cause Notices issued and personal hearing conducted	03
Gain tendered in favour of the Commission	02
Gain tendered in favour of the Issuers companies	04
Proceeding dropped	01
Under process	04

7.10 Developmental Activities

During the year under review, the Commission continued with its efforts for development of a fair and efficient capital market, with an emphasis on bringing new products and systems with stakeholders' consensus. A number of developmental activities were undertaken, the most prominent of which are as follows:

7.10.1 Constitution of the CFS Mk-II Review Committee

In line with the global trend, increase in global inflation and excessive rise in oil prices, our stock markets showed an overall declining trend during the calendar year 2008. Coupled with the global scenario, our stock exchanges suffered severe liquidity crunch and many brokerage houses faced serious problems in payment of their dues towards the CFS Mk-II Market. In view of the same, the Commission in consultation with the relevant stakeholders constituted a CFS Mk II Review Committee comprising representatives from the three Stock Exchanges, NCCPL, MUFAP, PBA and senior securities market professionals/ stakeholders. The Committee was assigned the task of reviewing CFS MK-II in its entirety and its role as a leverage product. Further the scope of the Committee extended to proposing measures for further strengthening of risk management of the product and recommending other leverage products in line with international best practices.

The Committee, after due deliberations, submitted its recommendations to the Commission for the discontinuation of the CFS Mk-II and Deliverable Futures Contracts while encouraging the Cash Settled Futures, in the best interests of the capital markets in Pakistan. In addition to the above, the Committee also put forth certain recommendations for strengthening the existing risk management at the stock exchanges' level.

Accordingly, in light of the Committee's recommendations, CFS Mk-II and Deliverable Futures Contracts were discontinued with effect from April 08, 2009 whereas, the Commission is in the process of continuous collaboration with all the stakeholders with regards to implementation of other recommendations put forward by the said Committee.

7.10.2 Constitution of Consultative Group on Capital Markets

On May 5, 2009, the Commission revived the Consultative Group on Capital Markets under the Chairmanship of Mr. Aftab Ahmed Diwan, Chief Operating Officer, CDC. The Group comprising representatives from the stock exchanges, NCCPL, Banks, Mutual Funds, the Commission, and other capital market experts has been constituted to act as an independent think-tank for important policy decisions in relation to the development of capital markets in Pakistan.

The Group has been mandated to review international best practices and suggest measures for the overall growth and development of capital markets particularly in the areas of new product development including alternative leverage products, debt capital market, new listings, risk management and market monitoring and surveillance etc.

In June 2009, the Group submitted its first report on "Margin Financing" with a view to cater for the financing needs of the capital markets in an efficient and transparent manner. The Commission is in the process of inviting and analyzing stakeholder comments on the report before going ahead with the implementation as a means to promote decision-making through stakeholder consensus.

7.10.3 Amendments in the Capital Issue Rules and Regulations for Buy Back of Shares

- In order to facilitate the issuer/offerers of securities, the existing Companies (Issue of Capital) Rules, 1996 have been reviewed and certain amendments have been proposed in light of suggestions received from certain stakeholders. The amended Rules will be notified after soliciting public opinion and approval of the competent authority.
- A revised version of Regulations for Buy Back of Shares has been drafted to allow companies to retain the repurchased shares as Treasury Stock.

7.10.4 Regulatory framework for issue of securities to Qualified Institutional Buyers (QIBs) and Sophisticated Investors (SIs)

The Commission is in the process of developing a regulatory framework for issue of corporate bonds and shares to QIBs and SIs, respectively. The proposed framework provides that corporate bonds and shares issued through private placements to QIBs and SIs may be listed on the stock exchanges, however, such securities cannot be offered to general public and hence there will be no requirements for issue of prospectus or to obtain approval from the Commission. Issuers will only be required to issue an Information Memorandum and obtain approval of the stock exchange concerned for listing of such securities. This will help developing the corporate debt market in Pakistan and facilitate the companies to list their securities issued to QIBs and SIs through private placement. Greater supply of corporate bonds will lead to more efficient secondary market.

7.10.5 Reduction in issuance cost through reduction in the rates of stamp duty

Efforts are being made to rationalize the cost of issue of corporate bonds especially the cost relating to stamp duties paid on issue and transfer of corporate bonds like TF, TFCs and CPs. With the concerted efforts of the Commission and Ministry of Finance, the rates of stamp duty applicable in Islamabad Capital Territory on issuance and transfer of commercial papers and corporate bonds have been reduced in April 2008. The matter for reduction in rate of stamp duty in the provinces in line with the rates applicable in ICT is being taken up with provincial governments.

In order to assess the total market size of privately placed corporate debts and to make better planning for the development of the domestic corporate debt market, the Commission vide Circular No. 27 of 2008 dated December 05, 2008 has made it mandatory for all the issuers of privately placed Corporate Debt Bonds outstanding at the date of the Circular and that are to be issued in future, to submit basic information about such issue.

7.10.6 Revision of Subscription forms for Shares and TFCs

The exiting forms for subscription of shares and TFCs were revised to cater for the difficulties faced by the investors, the balloters to the issue and other stakeholders.

7.10.7 Pre-Ballot scrutiny to rule out multiple applications for shares subscription

In order to curtail the menace of making fictitious and multiple applications for subscription of shares, it has been decided that in all future issues of shares pre-ballot scrutiny shall be conducted.

7.11 Work in Progress

7.11.1 Demutualization

During the financial year under review, the Commission made considerable progress towards promulgation of the Stock Exchanges (Corporatization, Demutualization and Integration) Act, 2008. The said Act was approved by the National Assembly Standing Committee on Finance, Revenue, Economic Affairs and Statistics in January 2009 and is expected to be placed for promulgation in the upcoming sessions of the National Assembly.

The Act provides for the conversion of the existing non-profit, mutually owned stock exchanges to for-profit entities owned by the shareholders. The Act would not only enable conversion of a stock exchange limited by guarantee into one limited by shares but would also segregate ownership and trading rights. Hence demutualization will undoubtedly bring greater balance among interests of different stakeholders in the corporate and governance structure of a stock exchange.

7.11.2 Margin Financing

In view of the need for alternate leverage products to cater for the financing appetite of the market after the discontinuation of CFS Mk-II and Deliverable Future Contracts, Margin Financing is being proposed in light of the recommendations of the Consultative Group on Capital Markets. Based on the principles of counterparty credit risk, whereby the lending terms are defined by the respective parties involved, this product will be available for both proprietary trade and clients of brokerage houses. Brokers would also be able to use their own funds to finance the Ready Market purchases of its clients in a transparent and disclosed manner.

During the period under review, the Commission has been engaged in extensive stakeholder consultation and analyzing the details of the proposed product.

7.11.3 Securities Lending and Borrowing Mechanism

The Commission has communicated its in-principle approval to the NCCPL for the development of a Securities Lending and Borrowing Mechanism. The said mechanism is aimed at further enhancing settlement efficiency together with further hedging default risk.

Securities borrowing and lending is an effective mechanism by which dormant securities in an investor's portfolio can be utilized by another investor to create profits. It also provides solution to managing delivery failures and facilitates market participants in short sales and dealing in deliverable future contracts.

7.11.4 Automation of Transfer of Securities into CDS against Trades / Transactions Settled Through NCS

In the recent past, there have been concerns over the level of authentication and control deemed to be adequate for the purpose of preventing misuse, either deliberate or due to an error, in procedures governing the movements of book-entry securities in the CDS. Accordingly, in order to address these concerns, a Committee was constituted by the Commission comprising representatives of CDC, NCCPL and KSE. The Committee submitted its recommendations in relation to an automated clearing & settlement process whereby securities would move directly from sellers Sub-Account or House Account to buyers Sub-Account or House Account at the CDC. The Commission has circulated the proposal to all the stock exchanges for their feedback to ensure decision-making through stakeholder consensus.

7.11.5 Credit Rating Companies

Ratings represent an evaluation of credit quality, conducted by independent financial analyst firms. Credit ratings and research can help investors assess marketplace value and degree of investment risk. Presently two Credit Rating companies are functioning in Pakistan: PACRA and JCR-VIS Credit Rating Company Limited.

Recent financial crisis has brought the role of credit rating agencies under the spotlight. The Commission is engaging international consultants, with the knowledge of credit rating agencies that would help the Commission in reviewing existing framework and business model against international best practices. During the year under review, the credit rating companies issued ratings to 308 companies.

7.12 Future Plans

7.12.1 Client-Level Margining Regime

In the current scenario, a defaulting broker, for fulfilling his overall commitment to the exchange or clearing company, may pledge all the clients' securities (whether authorized or not) to cover his shortfalls. This practice exposes the system to risks, depriving the clients from their holdings.

To cater for this situation, Client Level Margin System is being introduced. This system will ensure that all margin requirements against VaRs and Special Margins of each UIN would only be fulfilled from respective UIN-wise Securities /Cash deposit, and any deficit of Margins from any UIN should be treated as failure by the broker even if excess margins are deposited by the broker through other UIN's sub-accounts, thus essentially shifting the focus of the system from broker-level to client-level.

7.12.2 Development of Primary Market

For the development of the primary market and to facilitate the issuers/offerers of securities SMD is taking various initiatives which are as follows:

- Rationalization of documents submitted to the Commission and the exchanges along with application for approval of prospectus.
- Review of the listing process to make it more simple and efficient.
- Standardization of the contents of the prospectus, abridged prospectus and advertisement for issuance of securities.
- Revision of the Companies (Asset Backed Securitization) Rules.
- Standardization of the documents submitted along with application to a stock exchange for listing and to the Commission for approval of prospectus.
- Formulation of the guidelines for the structuring and issuance of Sukuks Certificates.
- Formulation of regulations for regulating the market makers.
- Formulation of guidelines for issue of securities outside Pakistan; and
- Formulation of guidelines for Employee Stock Option Schemes.

SPECIALIZED COMPANIES DIVISION

8.1 Introduction

Specialized Companies Division (SCD) strives to provide a conducive regulatory environment for the development and promotion of a robust Non-Bank Financial (NBF) sector. The major functions performed by SCD to foster growth and development of the NBF sector include: licensing, registration, regulation, on-site inspection, off-site surveillance and enforcement. The underlying objective is to safeguard the interests of the stakeholders while at the same time facilitate diversification and innovation in products and services of NBF sector.

8.2 Operational Structure

8.2.1 Structure

SDC's primary responsibilities include licensing, monitoring and enforcement of NBF sector participants i.e. Non Banking Finance Companies, Mutual Funds, Modarabas, Real Estate Investment Trusts, Pension Funds, Private Equity Funds and Venture Capital Funds.

To effectively regulate the sectors under the ambit, the Division has been divided into two main departments located at Islamabad and Karachi and have been designated as Non-Banking Finance Companies department (NBFCD) North and NBFCD (South) respectively.

The primary responsibilities handled at Northern and Southern offices are as follows:

NBFCD (North) - Undertakes the licensing, registration, regulation, and enforcement of investment banks, housing finance companies, leasing companies, mutual funds, modarabas, private pensions, REITs and private equity. For specialized regulation of each targeted segment of the NBF sector, the Northern office has been subdivided into five wings, as follows:

Wing	Regulated Areas
NBFC I	Investment Banks, Leasing and Housing finance
NBFC II	Mutual Funds
REITs and New Initiatives	REITs and Private Equity
Modarabas	Modarabas
Pensions	Voluntary Pension Schemes

NBFCD (South) - is responsible for on-site inspections and off-site surveillance of the entities licensed and regulated by NBFCD North.

SCD cognizant of the evolving needs of the industry, maintains regular interaction with the Non Banking sector of Pakistan through the relevant trade associations such as: Mutual Funds Association of Pakistan (MUFAP), Leasing Association of Pakistan (LAP), Investment Banks Association of Pakistan, Modaraba Association of Pakistan (MAP), as well as through industry seminars and one to one dialogue.

8.2.2 Management Team

SCD is headed by Mr. Salman Ali Shaikh. Mr. Shahid Nasim, Executive Director, oversees the monitoring and inspection function of SCD and Mr. Asif Jalal Bhatti, Director, looks after regulatory affairs of the Division. During the period Mr. Akif Saeed, Executive Director, remained incharge of SCD till January, 2009.

Officers of Specialized Companies Division with Director Mr. Asif Jalal Bhatti

Specialized Companies Division HO, Islamabad

Specialized Companies Division SRO, Karachi

8.3 Profile of the NBFC Sector

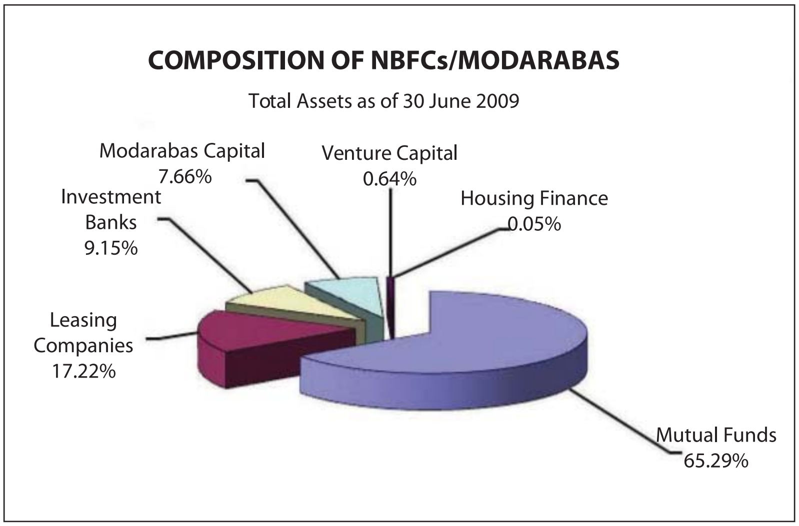
As of 30-06-2009, the NBF sector consisted of 59 registered NBFCs and 27 Modarabas classified in terms of type of license as follows:

Type of Business	No. of Licenses
Investment Finance Services	11
Leasing	16
Investment Advisory and Asset Management Services	51
Housing Finance Services	9
Modarabas	27
Venture Capital	4
Total	**118**

An activity-wise overview of assets of NBF sector as of 30-06-2009 is given below:

Sector	30-Jun-09	30-Jun-08
	Total Assets	Total Assets
Mutual Funds	227.00	339.72
Leasing Companies	59.86	65.92
Investment Banks	31.80	58.02
Modarabas	26.63	29.70
Venture Capital	2.23	3.76
Housing Finance	0.17	0.15
Total	**347.69**	**497.27**

The above depicts that based on asset size, the mutual funds and leasing sectors which constitute 65% and 17% of entire NBF sector respectively, primarily dominate the sector.



8.4 Performance Review

8.4.1 Mutual funds

Financial year 2008-2009 was a peculiar year for mutual fund industry of the Pakistan. The size of mutual fund sector in Pakistan peaked at Rs. 406 billion on April 25, 2008 but declined to Rs. 227 billion as of June 30, 2009. Equity funds dominated the mutual fund industry until 2006 constituting nearly 70% of the industry size. Since 2007 income funds gained traction and exhibited phenomenal growth resulting in nearly 50% share of the industry achieved by the first quarter of 2008. A key factor that leads to this growth was huge investment by commercial banks in income funds.

Subsequent to this rapid evolution, the industry encountered economic strains during the last 12 months and industry size contracted by more than 40%. The income dominated funds size plunged from Rs. 175 billion in April 2008 to Rs. 85 billion in June 2009, witnessing a decrease of more than 50%.

The key statistics for mutual fund sector as of June 30, 2009 were as follows:

Key Parameters	Value
Total Assets Size of Industry	PKR 227 Billion
Total Number of Funds	101
Open End Closed End	81 20
Total Number of AMCs/IAs	29
Major Mutual Fund	NIT(U)PKR 30 Billion
Assets Size of AMCs/IAs	PKR 33.4 billion

(a) New Company formation

During the year, NOC was granted for the establishment of Lakson Investments Limited to undertake asset management and investment advisory services.

(b) Mergers and Amalgamations

During the year, following mergers were approved by the Commission:

1. Merger of M/s Asian Capital Management Limited with M/s Safeway Funds Limited; and
2. Merger of United Money Market Fund into United Growth and Income Fund.

The details of mutual funds industry in Pakistan as on June 2009 is given in **Table 13 statistical section.**

8.4.2 NBFCs

(a) Renewal of Licenses

During the period under review, following number of licenses were renewed:

Type of Licenses	Number Renewed
Investment Finance Service	10

Leasing Business	12
Housing Finance Services	2
Asset Management	24
Investment Advisory	19
Venture Capital	-
Total	**67**

(b) Cancellation/Surrender of Licenses

During the year, the 4 NBFCs, which held multiple licenses, surrendered various licenses due to enhancement in equity requirements for all types of businesses and also the NBFC did not find it suitable to start/continue the relevant businesses.

(c) Appointment of Directors and CEOs

Total 40 cases for the appointment of CEOs and directors were approved during 2008-2009 out of which 09 cases pertained to the appointment of CEOs and 31 pertained to appointment of directors.

(d) Mergers/Amalgamations/ Acquisitions and Change of Management

During the period under review, the following 3 cases of mergers/amalgamations/acquisitions were processed by SCD and approved by the Commission:

- **i)** Network Leasing Corporation Limited was merged with KASB Capital Limited.
- **ii)** Capital Asset Leasing Corporation Limited was acquired by Optimus Limited.
- **iii)** KASB Capital Limited was merged with KASB Bank Limited.

(e) Investors' Complaints:

During the period under review, around 100 complaints were received from investors especially against three problematic entities i.e. Islamic Investment Bank Limited, Innovative Investment Bank Limited and Natover Lease and Refinance Ltd. All complaints received during the period under report were handled promptly and appropriate action was taken under intimation to the complainants.

8.4.3 REITs and New Initiatives

REITs are expected to add depth to the capital market by providing another investment avenue to the investors and will also inculcate transparency, professional management and price discovery in Pakistan's real estate market.

Real Estate Investment Trust Regulations, 2008 notified on January 31, 2008 govern the formation and operation of REIT Schemes in Pakistan. The REIT Regulations envisage two types of REITs i.e. Rental and Developmental with a minimum fund size of PKR 5 billion.

The Commission is in the process to review, revise and improve the regulatory framework to enhance public participation in the REITs as well as to facilitate investors and fund managers.

(a) New Company formation

Since the notification of REIT Regulations in 2008, the Commission has processed 4 applications for REITs. Of these, approval to form an REIT Management Company (RMC) has been granted to 2 companies, i.e Arif Habib REIT Management Limited and AKD REIT Management Company Limited that have been incorporated ***as public companies*** on April 8, 2008 and May 18, 2009 respectively.

8.4.4 Modarabas

The Islamic finance initiative started in the 80s in Pakistan with the promulgation of the Modaraba Companies and Modaraba (Floatation & Control) Ordinance in 1980 (the Modaraba Ordinance) that provided a statutory framework for *Shariah* compliant business opportunities for investors according to the injunctions of Islam. The Modaraba Ordinance provides a regulatory framework for the introduction of the Modaraba product as a tool for formation of Modaraba Companies.
A Modaraba can be formed either for a fixed or for an indefinite period of time. Modarabas raise funds through floatation of the Modaraba in the form of equity as well as through financing facilities from banks and other financial institutions under the various Islamic financing arrangements. The Modaraba normally utilizes its funds in Ijarah (Leasing), Musharakah (Partnership) Murabahah (Cost plus) facilities as well as investment in shares of listed companies but within the norms and tenets of the injunctions of Islam. Most Modarabas in Pakistan are financial while a few have been formed for industrial, trading or other service sectors.

The Modaraba sector in Pakistan has made exhaustive efforts towards steady improvements and progress during the last year. During the financial crisis, amidst burgeoning credit crunch, Modarabas were the least affected sector with not even a single default registered in the period.

At present, 27 Modarabas constitute the Modaraba sector having an aggregate paid-up capital of Rs. 8.771 billion. The total assets of Modaraba sector stand at Rs. 26.63 billion, while the total equity amounts to Rs. 11.3 billion as on June 30, 2009. Out of these, 18 have declared cash dividends between the ranges of 2.5% to 40% for the year ended June 30, 2008.

(a) New Modarabas

During the period under review, one Modaraba Company namely; SFT Modaraba Management (Pvt.) Limited has been registered. Another application submitted for registration of Modaraba Company is currently under review.

(b) Modarabas under Floatation

Following 3 Modarabas have been authorized during the year and are expected to be floated:

1. Modaraba Al-Tameer
2. Modaraba Al-Makatib
3. Modaraba Al-Souk

(c) Change of Management:

During the period under review, the Registrar (Modarabas) transferred the management of Trust Modaraba to Al-Zamin Leasing Modaraba through an Order under section 20(1)(iii) of the Modaraba Ordinance

8.5 Regulation of NBFCs

8.5.1 Mutual Funds

Financial year 2008-2009 was a peculiar year for the financial markets of Pakistan primarily due to the challenges posed by the financial crisis in the domestic and global financial markets. The imposition of floor on the equity prices at the stock exchanges on August 27, 2008 drastically reduced market volumes leading to difficulty in discovery of fair valuation of equity securities. The absence of secondary market for debt securities coupled with liquidity problems led to difficulty in discovery of fair valuation of debt securities. The liquidity crunch had a significant bearing on some collective investment schemes which were not able to meet mounting redemption pressures within the specified regulatory time period. Despite the unprecedented general economic turmoil, mutual funds were able to repay an amount of more than Rs. 90 billion to their investors in the worst liquidity crunch ever faced by Pakistani financial markets. During the crisis, following issues emanated:

(a) Cross matching investments between funds and financial institutions

Financial institutions heavily invested in open-end income dominated funds to benefit from high after tax yield as compared to the yields earned through conventional banking activities. The investment in income funds was much more liquid for banks as compared to any other credit exposure taken by these institutions. The banks as a business proposition, also managed to attract deposits from these income funds against their investments which not only provided an additional comfort to the banks against their exposure but also ballooned their balance sheets. Fund managers also encouraged the investment by these financial institutions to increase the size of assets under their management which resultantly increased their management fee. It was also an easier way to make money as compared to other avenues available to the fund managers.

(b) Mismatch of asset profile and investment style with open-end structure of funds owing to illiquid debt market

Secondary market for debt securities has yet to evolve in Pakistan. Debt securities, both listed and unlisted, trade at over-the-counter market with minimum trading volumes. The recent liquidity crunch coupled with dormant debt market, forced the funds managers who had significant debt securities exposure, either to delay and in worst cases dishonor the redemption requests of the investors.

Some securities had to be disposed off at considerably high discount rates causing substantial erosion in the NAV of their funds. Although the debt market was never active, the unprecedented redemption pressure exposed the fund managers who were maintaining incongruent assets profile against the six days redemption structural feature of the open funds.

(c) Fair price discovery of debt securities

As of October 31, 2008 out of total assets of Rs. 118 billion of income dominated funds, 50% of such assets were represented by TFCs. Owing to dormant market conditions and liquidity crunch, there were negligible trades in TFCs held by the mutual funds. Therefore, the pricing mechanism for determining/declaring the fair value of TFCs, based on quotation of three brokers in terms of volumes, became defective. The value of TFCs taken by mutual funds for determination of NAV and for issuance and redemption of units also appeared to be non-existent and did not reflect fair value of assets of funds.

An undue advantage was caused to the unit holders who were exiting the mutual funds at that point in time. Similarly, new unit holders were reluctant to enter into the fund as they were at a dis-advantage as the issuance unit price did not reflect fair valuation of assets.

(d) Provisioning Treatment against Defaulted Corporate Bonds

The financial turmoil and liquidity pressure adversely affected companies and the corporate bonds (i.e. TFCs) issued by them defaulted on their repayment. However, in absence of any uniform provisioning criterion, some of the fund managers holding such defaulted TFCs abruptly adjusted their NAV downward by creating provisions against such TFCs in different ranges from 10% to 100% at different times without having any pre-approved and disclosed provisioning policy. Such discretionary provisioning treatment for the same TFC held by different fund managers resulted in diverging values. This not only adversely effected the investors' perception but also triggered the overall redemption pressure on the industry.

(e) High Risk / High Return Strategy Backfired

Some funds managers seeking for higher returns placed funds with relatively weaker financial institutions which were vulnerable to any economic downturn. Such institutions due to liquidity pressures could not timely fulfill their obligations and forced the fund managers for compulsory rollovers. Resultantly, fund managers (due to non-encashment of deposits/placements) could not timely honour the investors' redemption requests which adversely affected their credibility.

Regulatory Response

The above issues posed serious challenges to the mutual fund industry and necessitated regulatory response to minimize the adverse impact. In this regard, the Commission took certain preventive measures to protect underlying investors and facilitate the industry. Some of these measures included:

- **Improved Methodology for Valuation of Debt Securities:** - Fair valuation of securities including debt instruments is essential for mutual funds under the open-end structure. The Commission prescribed new valuation methodology and provisioning criteria for debt securities held by CIS. The valuation methodology was aimed at bringing consistency across the mutual fund industry and facilitate fair price discovery of debt securities. To ensure that valuations of debt securities derived from the above prescribed methodology are meaningful, the Commission also directed all AMCs to report trade details in relation to debt securities.

- **Categorization of Funds:** - The recent crisis uncovered a malpractice whereby certain funds asset composition and risk profile / investment objective portrayed from its name/title significantly mismatched. Proper categorization of funds indicating risk profile and objective of the fund became imperative. For this purpose the Commission devised comprehensive categorization criteria prescribed through Circular No. 07 of 2009 specifying investment parameters including eligible asset class with pre-specified risk profile for each fund category that would enable investors to make informed investment decision and bring uniformity in the mutual fund industry for comparing performance of funds.

- **Categorization of mutual funds: -** The need was felt much earlier, however, this reformative task materialized on March 06, 2009 when the Commission notified through Circular No. 7 of 2009 wherein criteria for categorization of open-end CIS was stipulated. Henceforth, CIS will be categorized as under:

  i) Money-Market Fund
  ii) Income Fund
  iii) Aggressive Fixed Income Fund
  iv) Equity Fund
  v) Balanced Fund
  vi) Asset Allocation Fund
  vii) Capital Protected Fund
  viii) Index Fund
  ix) Fund of Funds
  x) Shariah Compliant Fund

- **Investor Protection: -** During the financial year 2008-2009, the Commission took reformative measures to safeguard the interests of the unit holders and for protection of investors. Some of these are listed below:

1. On October 07, 2008, the Commission issued direction to all asset management companies to suspend with immediate effect, pricing, issuance and redemption of units of Open-end schemes with direct exposure to equity securities.
2. On December 01, 2008, the Commission issued a direction to all Asset Management Companies to abide by the following:

   - Abstain from netting off and adjustment of assets of collective investment schemes against the investment of unit holders;
   - Forward all redemption and issuance requests to the trustee within 24 hours of receipt of such request;
   - Carry out all transactions only on cash-settled basis and prohibited entry or exit to the scheme including flipping of units, ; and
   - Not to carry any transactions in schemes without the knowledge and consent of the respective trustee.

3. On March 26, 2009, in line with the international best practices the Commission introduced the following measures through Circular No. 11 of 2009:

   - Cut-off timings and time-stamping mechanism by collective investment schemes;
   - Announcement of daily NAV latest by 18:30 hours;
   - Limitations on closure of register of unit holders to a maximum of 6 business

days at a time and not exceeding aggregate 45 days in a calendar year; and
- Amortization of formation cost of collective investment schemes over a period not less than 5 years.

- **Merger of Open End Schemes: -** The Commission vide Circular No. 20 of 2009 dated June 23, 2009 stipulated the regulatory process for carrying out mergers of Open-end schemes with the primary objective of ensuring enhanced transparency and disclosure by asset management companies.

- **Investment by Closed-End Schemes in its own certificates and subsequent resale of such certificates: -** Certain asset management companies expressed interest in purchasing certificates of closed-end schemes on behalf of the scheme primarily to narrow the discount and enhance liquidity. The Commission in consultation with MUFAP deemed it necessary to issue a detailed circular on the procedure to purchase certificates of closed-end schemes to enhance transparency and disclosure for the investors.

- **Dialogue with Stakeholder – MUFAP: -** The Commission in its efforts toward developing the capital market of Pakistan has been in constant dialogue with the Mutual Fund Association of Pakistan (MUFAP).

8.5.2 Modarabas

(a) Recent Developments in Modaraba's Regulatory Setup

As a part of the Prudential Regulations for Modarabas, the Fit and Proper Criteria has been introduced for the appointment of the key executives of Modarabas including the chief executive officers, chief financial officers, chief operating officers, chief accounting officers, company secretary, internal auditors or the compliance officers. The fitness and propriety of these executives is assessed on the basis of integrity and track record, financial soundness, competence and capability of person and conflict of interest of such person with the business of the Modaraba Company. To assess Modaraba's compliance to the applicable Law, off-site surveillance and on-site inspections are regularly conducted and necessary enforcement actions are taken in case of violations.

(b) Stakeholder Dialogue

The Registrar (Modarabas) in consultation with the Modaraba Association of Pakistan (MAP), has taken up matters regarding the Zakat & Ushr Ordinance 1980 to allow the Modarabas to deduct the Zakat on the Certificates of Modarabas and Musharakah.

In order to allow the Modarabas to perform the functions of balloters, transfer agents and underwriters under the Balloters, Transfer Agents and Underwriter Rules, 2001, the matter was discussed with MAP and is presently being considered by the Commission. Modaraba Tribunal has been constituted to expedite the legal cases pertaining to Modarabas.

8.5.3 Private Equity

The Private Equity and Venture Capital Fund Regulations 2008 (PE&VCF Regulations) were notified on August 20, 2008. Previously, Venture Capital Investment Business was regulated by the Commission under the provisions of the NBFC Regulations, 2007. However, considering private equity a distinct asset class, a separate regulatory framework was framed for regulation and promotion of PE&VC Funds in Pakistan.

The private equity is expected to unlock the hidden value of the private companies by providing capital and managerial skills for growth and expansion. The key features of PE&VCF Regulations are highlighted below:

i) Private Equity in Pakistan follows a trust structure under the PE&VCF Regulations to provide for an added layer of protection for the stakeholders.
ii) The scheme of business of venture capital investment has been made similar to that of asset management (i.e. mutual funds). Venture capitalists would be required to route all their investments through a fund launched by a management company. The PE&VC Fund is a closed-end unit trust.
iii) The Fund Management Company (FMC) will be an NBFC licensed by the Commission to undertake the PE&VC Fund Management Services with a paid-up capital requirement of Rs. 30 million.
iv) The promoters, directors and key executives of the FMC will have to comply with the fit and proper criteria made part of these regulations by the Commission.
v) Minimum fund size has been fixed at Rs. 250 million.
vi) The fund may provide equity for seed/start-up capital as well as expansion and buyout financing primarily to private companies. However, it can venture into privatization deals of public enterprises.
vii) The criterion for eligibility of investors has been introduced and minimum number of investors has been fixed at five persons with a minimum subscription amount of Rs. 10 million per investor that can only be raised through private placement.
viii) Due to the trust structure for the fund every fund will have a trustee who fits the criteria specified in these regulations for the trustee of a fund.
ix) The fund is not allowed to list and has a maximum fixed life of fifteen years.
x) The PE&VC Funds established outside Pakistan have been offered the benefit of registering with the Commission to avail the added tax advantages. Foreign funds not raising money locally will be subject to minimum regulation while those raising money locally are subject to same level of regulation as are for the local funds.

8.5.4 Pensions

(a) Voluntary Pension Funds

The Voluntary Pension System (VPS) is the initiative to provide a regulated framework for employed and self employed individuals to save voluntarily into a pension fund during their working lives and get continuous stream of income during their old age. The framework governing the VPS is provided in the Voluntary Pension System Rules 2005 (VPS Rules). The pension funds offers the participants a customized investment choice in line with their individual risk appetite. The contributions are kept by the pension fund manager in a distinct account that also offers portability facility since the balance can be transferred to another pension fund manager.

At the time of retirement, a participant can withdraw up to 50% of the balance in his account without paying any tax. From the remaining amount, he can receive monthly income by purchasing an annuity from a Life Insurance Company or an income payment plan from a Pension Fund Manager. In case, a participant passes away before completion of the term of annuity/ income payment plan, his nominees can receive the money on his behalf. The participants who are 60 or above are also entitled to a tax relief whereby their tax liability is reduced to 50% if their annual income does not exceed Rs. 750,000.

The Commission has so far authorized 4 Pension Fund Managers after appraising their credentials in light of the requirements laid out in terms of the VPS Rules. All the 4 Pension Fund Managers have launched the Pension Funds. Another application has been received for registration as Pension Fund Manager and is currently under scrutiny.

(b) Operational Summary

The Pension Funds under VPS are subject to compliance with the provisions of the VPS Rules.

The VPS Rules along with the necessary guidelines and related circulars ensure that the pension funds are managed according to the law in respect of areas such as: investment and allocation of contributions into the Pension Fund; obligations/restrictions on the Pension Fund Manager; modalities governing contribution in to the Pension Fund and the Individual Pension Account; record keeping requirements; financial reporting requirements; provisions relating to the advertisements and invitations; provisions relating to trustee; dispute resolution mechanism; modalities relating to withdrawal of money from the Pension Fund etc.

Till date, 7 Pension Funds have been authorized in aggregate of which, 3 are conventional Pension Funds and 4 are Shariah Compliant Pension Funds. There are 4 Pension Fund Managers, each offering one Conventional Pension Fund and one Sharia Compliant Pension Fund except, Al-Meezan Investment Management Limited who have offered a single Sharia Compliant Pension Fund.

Under the off-site monitoring of the Pension Funds, data and accounts submitted periodically by the Pension Funds were appraised to analyze the performance of the Pension Funds and the status of their compliance with the governing legislation. This was followed by appropriate regulatory feedback.

8.6 Monitoring and Inspection

8.6.1 Off Site Surveillance & On Site Inspections

Off-site surveillance and on-site inspection functions were further streamlined during the period under review. Off-site examinations were conducted to check the regulatory compliance and to read the early warning signals emanating from the published accounts and other periodical returns received by the Commission. The on-site intrusive inspections were conducted to determine the true financial health of the NBFCs and to uncover the financial crimes and other market abuses.

8.6.2 Off-Site Monitoring

Off-site monitoring proactively supervises and monitors NBFCs /Modarabas on the basis of different periodic returns submitted to the Commission. Annual audited accounts and other periodic statements (quarterly and monthly reports) were examined to ensure compliance with prevalent regulatory framework. On the basis of off site examinations, various enforcement actions were initiated including directions, warnings, issuance of show cause notices and orders.

Moreover, financial condition and regulatory compliance of the NBFCs were reviewed before renewal of their licenses. The following major activities were performed by off site examination team:

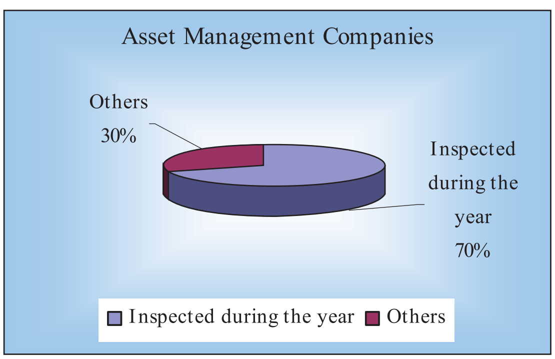
- Monthly consolidated sector reports were prepared that reflected the outlook of the respective sector and were helpful in decision making. The sector reports include details of deposits, asset base, asset composition, investments of NBFCs/ Modarabas.
- The high risk entities were identified based on the off-site surveillance and on site inspections were proposed.
- The merger proposals/ swap ratios were analyzed and comments were provided to the respective regulations wings.
- During the financial crisis of 2008, daily reports were prepared and provided in respect of issuance and redemption of mutual fund units.

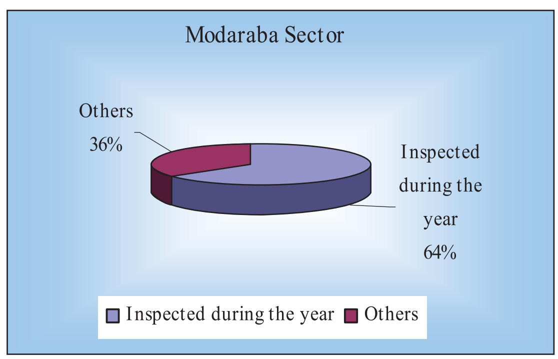
Going forward, efforts are being made to put in place a comprehensive on-line return submission system. It is hoped that the said system will facilitate the NBFCs/Modarabas and will result in efficient and timely submission of returns and monitoring of the risks in NBFCs on individual as well as on consolidated basis.

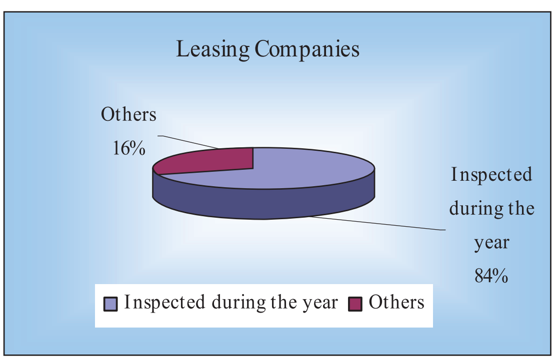
8.6.3 On-Site Inspections

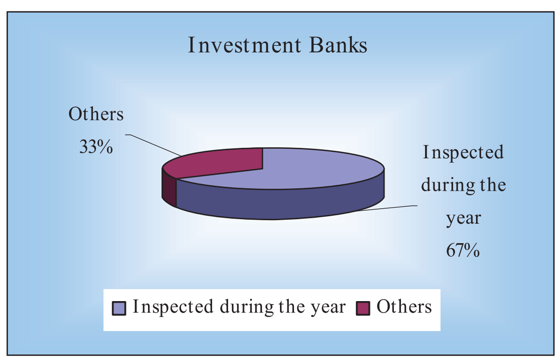
Onsite inspections of more than 70% of the overall NBFCs sector in terms of total assets were conducted during the year. In terms of numbers, inspection of 12 Asset Management Companies having 56 Mutual Funds, 8 Modarabas, 6 Leasing Companies, 4 Investment Banks and 1 Venture Capital Company was carried out.

The following graphical representation reflects the sector wise inspection coverage during the year:









The major inspection findings may be categorized as follows:

AMCs/Investment Advisors & Mutual Funds

- Front running by Fund Managers/their associates
- No trading policy for employees
- High dependence on institutional investors
- Investment in related party securities
- Minimum role of investment committees
- No uniform policy on sales load/commission
- Weak research capacity/reliance on brokers research
- Lax risk management and compliance functions
- Other non-compliances of the applicable regulatory framework

Investment Banks/Leasing Companies/ Modarabas

- Lack of close monitoring by the Board of Directors
- Lack of independence of Audit Committee and Internal Auditor.
- Weak internal controls and risk management mechanism
- Excessive exposures to single person/ group
- Non-Shariah compliant activities in case of Modarabas
- Low level of capital/inadequate equity
- Other non-compliances of the applicable regulatory framework

8.6.4 Development of Inspection Manual

In order to ensure adequate coverage of risk areas, to standardize the inspection procedures/ processes and to improve the inspection quality, it was imperative to have an Inspection Manual. During the year under review, on-site inspection manual was developed in-house, which covers the NBFCs regulatory framework and provides uniform yardsticks for measuring the health and performance of NBFCs. Besides, a comprehensive Code of Conduct has been prepared for the officers involved in inspection function. This will help in ensuring the maintenance of high standards of confidentiality, impartiality and secrecy of privileged information, gained during the inspection process.

8.7 Enforcement Actions

Show Cause Notices and Orders Issued

8.7.1 NBFCs

During the period under review, one show cause notice was issued under section 265 of the Companies Ordinance, 1984 for investigation into the affairs of an NBFC.

One Order was issued under section 265 of Companies Ordinance 1984 and NBFC Rules, whereby an inspector was appointed to investigate the affairs of NBFC.

8.7.2 Modarabas

During the period under review, Registrar (Modarabas) issued 6 show-cause notices to Modaraba management companies, CEOs and the directors to explain their position against the violations of Modaraba Ordinance, 1980 and Modaraba Rules, 1981.

The Registrar (Modarabas) passed 5 Orders to the Modaraba Management Companies mainly pertaining to severe violations of Modaraba Ordinance and Prudential Regulations, non-compliance of provisions relating to accounts, mismanagement of funds, non-compliance of reports and Code of Corporate Governance upon which the penalties were imposed.

8.7.3 De-Registration of Modarabas

During the period under review, registration of 2 Modaraba Management Companies were cancelled / deregistered through the Orders of the Registrar (Modarabas). These companies were registered as far back as 1990 and had not floated a Modaraba as required under the law. After giving an opportunity of being heard, the managements did not express any intent to float a Modaraba, so the Registrar (Modarabas) issued orders under section 19 of the Modaraba Ordinance, 1980.

8.8 Developmental Activities

8.8.1 Donor Assisted Projects

SCD undertook three projects which were funded by the World Bank through the IDF grant. The money was spent on the projects for which local resource was not available and international consultants were required to undertake the project. Two projects were related to REITs, an area for which the regulatory framework had recently been promulgated, and aimed towards capacity building of REITs team and to gain expertise in the area of property valuations for REITs schemes, respectively. The third project was about improving the monitoring and inspection function of the division and included intensive training of the SCD staff.

Valuation of properties and Capacity Building of REITs team

World Bank provided funding through its IDF grant programme for projects pertaining to REITs. This grant was allocated between 2 projects, one related to capacity building for REITs team and the other to the valuation of properties for REITs schemes. For capacity building of REITs team, a delegation was sent to the Securities Commission Malaysia. The delegation was provided a comprehensive overview of the regulatory setup of the real estate market in Malaysia with a focus on REITs in Malaysia. Under this grant a wide range of organizations were consulted in Malaysia which included the Securities Commission Malaysia, the Ministry of Finance, Property Division JPPH, NAPIC and National Institute of Valuation. To understand the academia and accreditation process for property valuers, the Institute of Surveyors Malaysia and universities were consulted and issues related to professional training of the property valuers were discussed.

Valuation of property for REITs was the second project for which an international consultant was hired. The consultant who is a former chairman of International Valuation Standards Council (IVSC) submitted his report on the property valuations for different type of projects. These included financial valuation models for half built properties, condominiums, hospitals and rental projects. He also highlighted the international best practices and provided training on property valuations for REITs focusing on different approaches to valuation.

Capacity building for Monitoring and Inspection Wing

World Bank also funded a project for the capacity building of the Monitoring and Inspection wing for which an international consultant was hired. The consultancy resulted in an intensive training of the SCD staff pertaining to the monitoring issues relating to mutual funds, international best practices in mutual fund management, benchmarking, marketing, stakeholder role including that of the trustees and policy making. The project also resulted in developing the M&I Manual after consultation with the key staff members of the M&I wing.

8.8.2 Membership of International Organizations

International Organization of Pension Supervisors (IOPS)

The Commission is a member of the IOPS, an independent international body, representing those involved in the supervision of private pension arrangements from 50 countries and territories worldwide. Formed in July 2004, the creation of IOPS was mainly motivated by the intention to set up a standard-setting body on pension supervisory matters so as to promote and facilitate the members by carrying out joint activities in areas such as, research, data collection and processing hence disseminating the results.

International Valuation Standards Council (IVSC)

The Commission became a member of the (IVSC) in November, 2008. IVSC is an international, independent and not for profit body which is responsible for making global standards of valuation. IVSC in year 2007 published the eighth International Valuation Standards.

The Commission has incorporated the international valuations standards for property valuations in the REIT Regulations 2008. The incorporation of international standards will not only bring the REITs property valuation framework in line with the global best practices but will also help the Commission in keeping updated with the latest developments taking place in the valuation profession globally. This will also help the valuers in Pakistan to develop and increase their professional expertise.

Islamic Financial Services Board (IFSB)

The Commission, as an Associate Member of the IFSB, has renewed its membership in 2009. The Commission maintains a close liaison with the IFSB and plays a pivotal role in the matters for the development of the Islamic financial markets, provides feedback on workshops, trainings & researches conducted and also provides comments on the Exposure Drafts issued by the IFSB. Moreover, the industry issues were discussed with all the Modarabas with the coordination of (MAP) and conveyed to the IFSB.

With this membership, supervisory and regulatory standards are expected to be set for the Islamic financial sector including Modarabas, Islamic Mutual Funds and Takaful operators.

Asian Public Real Estate Association (APREA)

The Commission has thoroughly benefited from its association with APREA since May, 2007 and received valuable assistance in its effort to be the first South Asian country to have a REITs framework. APREA's suggestions were particularly helpful in enabling the Commission to devise an efficient regulatory environment for REITs in Pakistan and promote awareness about the real estate sector. APREA's members benefit from a greater representation of the real estate sector in the Asia Pacific Region, a dedicated forum, cost savings, better research and analysis, as well as access to more focused information. APREA aims to provide a unified platform whereby all the stakeholders can share useful information to resolve issues of mutual interest. Members of the APREA come from a variety of professional backgrounds including real estate developers, listed real estate trusts, unlisted property funds, investment banks, real estate consultants, stock brokers, and government regulatory bodies.

The International Association of Insolvency Regulators (IAIR)

The Commission became member of IAIR in May 2009. IAIR is an international body that brings together the collective experience and expertise of government insolvency regulators from jurisdictions around the world. IAIR members have a unique perspective given the role that they play in insolvency systems. Members of the IAIR are Government Departments/Ministries, Agencies and Public Authorities. The agencies have responsibility in their country for insolvency policy and legislation, insolvency practice and administration, and insolvency regulation.

8.8.3 Joint Forum of SBP and SECP for the Development of Islamic Financial Services of Pakistan

The Commission and SBP have established a joint forum for the development of Islamic financial services in Pakistan whereby both have agreed to exchange information and ideas on cross sector developments, developing and strengthening supervisory framework for the Islamic Financial Institutions (IFIs) to improve operational and financial governance of IFIs in accordance with Shariah and the IFSB standards. The 4th meeting of the SBP-SECP Joint Forum for Islamic Financial Services was held on June 18-19, 2009 in Karachi in which, amongst other items, the Guidelines on the issuance of Sukuks for the market; conference on Islamic Banking & Finance, and opinions from SBP's Shariah Board regarding issues confronting the Takaful industry were discussed.

8.8.4 Licensing policy during the year

NBFCs in Pakistan were confronted with a number of issues this year. A number of measures were taken at licensing stage through amendments in NBFC regulations to solve these issues. The following highlights the issues and the mitigation measures taken against each issue:

a) Low entry barrier i.e. inadequate equity requirement

To solve this issue equity requirement for NBFCs were significantly enhanced to encourage merger & consolidation, enhance shock absorption capacity and ultimately weed out the weak players to minimize systemic risk.

b) Capacity issue of Sponsors/ Board/ Management

To enhance the capacity of board to undertake the policy making for the companies, a comprehensive fit & proper criteria for Sponsors/BOD/Management was introduced encompassing financial soundness, competence & capability, and experience, integrity & conflict of interests.

c) Conflict of interests

Introduced requirement for appointing one-third independent directors on the Board to promote good corporate governance and safeguard interest of stakeholders

d) Single entity & multiple licensing regime

In order to segregate different risks (market risk & credit risk), enhance risk management capacity, minimize conflict of interest, and promote good corporate governance, two-cluster licensing approach was introduced for NBFCs. Separate license requirements each for Pension Funds, REITs & Private Equity were also introduced.

e) Transfer of license without Commission's consent/ knowledge

In order to improve transparency and good governance, various measures were taken including blocking of major shareholder/ sponsor's shares with CDC, prior approval of Commission for sponsor changes, and introduction of pre-licensing capacity inspection.

8.8.5 Know Your Customer Policy

To safeguard NBFCs against involvement in money laundering activities, terrorist financing and other illegal trades, the Commission vide Circular No. 12 of 2009 introduced Customer Due Diligence(CDD)/Know Your Customer (KYC) Policy.

8.8.6 Constitution of the Religious Board

In pursuance to the power conferred by the Federal Government under section 9 of the Modaraba Ordinance, 1980, a Gazette Notification has been issued on April 22, 2009 for the constitution of the Religious Board for the Modarabas. The function performed by the Religious Board is to review and endorse the policies and guidelines for the purposes of flotation of a Modaraba, issuance of new products, contracts, agreements or other legal documentation with respect to Shariah.

8.9 Work in Progress

8.9.1 Proposed Amendments in Modaraba Ordinance and Rules

Over the period, the modaraba sector has grown in terms of its practice, applicability and innovation. This necessitates improved corporate governance and monitoring of the sector to effectively protect the interests of shareholders. Proposals have been made for amendments in the Modaraba Ordinance followed by Modaraba Rules 1981, to remove any bottlenecks in the growth of the sector.

Some of the proposed amendments were forwarded to the Ministry of Finance and subsequently presented to the National Assembly's Standing Committee on Finance and Economic Affairs, which were duly approved.

8.9.2 Draft Regulations on Islamic Financial Services (Non-Banking) Companies (IFSC)

A regulatory framework has been conceptualized for companies offering Islamic financial services and the certification for Shariah complaint companies. This will regulate all financial sector companies under the domain of Commission and any other company (non-financial/ manufacturing) under its mandate which seeks to call itself a 'Shariah Compliant Company'.

8.9.3 Guidelines for issuance of Sukuk (Assets Backed Securitization) for Modarabas

The Commission is working on the guidelines for the issuance of Sukuk (Asset Based Securitization) for the Modarabas. This unveils the alternate to raise funds and involve financial institutions to take interest in Modarabas activities particularly the conventional banks. Formulation of these guidelines will simplify the procedure for issuance, evaluation and regulation of Sukuk which are in line with the injunctions of Islam.

8.9.4 Development of Regulatory Law on Occupational Savings Schemes (OSS)

Subsequent to an amendment in SECP Act during 2008, whereby development of regulatory law on OSS falls under the purview of the Commission, an ADB sponsored consultant has been hired to advise on the way forward and legal implications of enforcing this amendment. The matter is also being liaised with the Legal department for appropriate further progress including to resort to the earlier status, if concluded to be expedient, where only the Pension Funds under the Voluntary Pension System fall within the regulatory purview of the Commission.

8.10 Future Plans

SCD has following future plans which pertain to both improving the regulatory structure through amendment in laws as well as enhancing the operational efficiency of the division through usage of better systems:

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.
- Rationalization of NBFC's statutory returns in light of amendments in Ordinance, Rules and Regulations.
- Off-site surveillance of NBFC sector to be shifted from periodical returns to computer based MIS reports.
- As a part of ongoing review of NBFC Rules and Regulations and to bring them in line with changing business dynamics, certain amendments are being proposed in the NBFC Rules, 2003 and NBFC Regulations covering the following major areas:

  i) Increase the validity of licenses issued to NBFCs from 1 year to 3 years.
  ii) Revamp the business model of investment banks through amendments in NBFC Rules and Regulations.
  iii) Extend the time period till June 2011 for compliance with minimum equity requirement.

Pensions

Private Pension Funds are passing through introductory phase and are new to the Pakistani market. Worldwide statistics suggests vast untapped potential of growth. The Commission has been endeavoring to provide conducive environment for encouraging savings by individuals through pension funds. Factors inhibiting the steady growth of the private pension industry are being addressed in consultation with tax authorities and the industry. Efforts of the Commission have witnessed some success but there remain some critical disparities to be rectified. For example:-

- The Occupational Pensions Schemes offered in the country envisage tax free pension payment. On the contrary, the periodic (monthly) pension payment under VPS is taxable. Recently, limit of tax free withdrawal at retirement from a Pension Fund, has been enhanced from 25% to 50% through the Finance Act 2009, but the 100% tax exempt status is yet to be achieved. The Commission has been liaising with FBR to completely remove this anomaly in the interest of aging population.
- Currently the tax law favours short term investment rather than long term savings and investment. For example tax credit is fully earned on investment in fresh equity issues/ collective investment schemes if one retains the investment for one year time period. On the contrary, tax credit is made available if some one remains invested up to the age of 60 years i.e. investment for a period of 30-35 years. This is a substantive tax inconsistency which needs to be addressed and the Commission shall again take up the matter with FBR for rectification.
- The clause requiring payment of minimum tax exempts, inter alia, National Investment Trust; collective investment schemes and real estate investment trusts. The exemption needs to be extended to Pension Funds being the long-term saving vehicle and property of aged citizens (pensioners).

Mutual Funds

Guidelines on the following will be issued:

- Advertisement & Promotional Materials
- Administrative Plans
- Portfolio Management

Having experienced a troubled year in the wake of financial crisis, protection of investors is on the agenda in the upcoming financial year. The Commission in consultation with MUFAP aims to launch investor education programs. In this regard, membership of the International Forum on Investor Education is under consideration by the Commission.

Modaraba Companies & Modarabas

(a) Amendments in the Modaraba Ordinance, 1980

A complete and comprehensive review of the Modaraba Ordinance of 1980 and the underlying Modaraba Rules is planned. The review shall take the shape of proposed amendments and shall be the first exhaustive review since their promulgation.

(b) Amendments in Prudential Regulations for Modarabas

For closely monitoring and enhancing exposure of the Modaraba Sector to the financial sector, the Prudential Regulations have been reviewed and are under consideration for amendment keeping in mind the sector's performance, profitability and future growth perspective.

(c) Amendments in Zakat & Usher Ordinance, 1980 for the deduction of Zakat by the Modaraba Sector

An amendment in Zakat & Usher Ordinance, 1980 is being proposed so that the modaraba sector is either exempted from deduction of zakat or be allowed to deduct zakat on its certificates at the time of distribution of profits to its certificate holders.

8.10.1 Future Strategy

Presently, the financial service industry is banking centric and dependence of entire financial system on banking sector is not only vulnerable but also restricts the scope for innovation of new financial products. It is imperative to promote an alternative non-bank financial (NBF) system to diversify the inherent systemic risk and to enhance the resilience of the financial system. A strong NBF sector would not only provide different asset class to promote savings by catering the specific needs of the participants but would also provide alternative fund raising opportunities to the participants.

Investment banks can make a vital contribution in development of a vibrant NBF Sector. However, Investment Banks have not been able to make any significant contribution as primarily they focused on the analogous financial services as offered by the conventional banking sector. They were not able to compete owing to their limited access to resource mobilization coupled with low capitalization and limited branch network when compared to the commercial banks offering the similar services. We intend to encourage a more viable and sustainable business model for Investment banks to be tilted more towards offering of non-funded i.e. fee and commission based, financial services. These services may include brokerage, portfolio management, corporate finance, underwriting and advisory etc. This will also promote corporate brokerage houses culture and consequently would contribute to address the corporate governance issues in brokerage industry. Investment Banks would also be encouraged to focus on product innovation to meet the unique requirements of the participants of financial system.

Leasing is a successful business model and we would promote it by allowing operational flexibility to leasing companies to cater the specific financial needs of the customers. We would require leasing companies to enhance their shock absorption capacity by way of consolidation through mergers and acquisition etc. The leasing sector should focus on raising funds from Capital and Debt Markets instead of depending upon conventional banking finance facilities only. They should also expand their outreach to rural areas as target market which has a great business potential without any competition from commercial banks.

Mutual Funds play a fundamental role to mobilize and channelize the savings to the Capital and Debt Markets. We intend to develop this industry as an efficient alternative system to the conventional banking and National Saving Schemes to promote savings and investments. We will continue to promote international best practices to enhance the investors' confidence and enable them to make a well informed decision. However, the industry participants have to play the requisite pro-active role to enhance the retail base of the investors by focusing on distribution network, investors' awareness, product innovation and offering of unique and specialized services etc. We expect Mutual Funds being one the most organized intuitional stakeholders with specialized expertise, to contribute to the development and reforms of financial markets.

Internationally, Pension funds are considered very instrumental in bringing stability in the financial markets besides improving corporate governance. In Pakistan, these are new entrants in NBF sector. Legal framework for private pensions has already been provided. Realizing significance of pensions and savings for the market and the society, we would continue to bring improvement in the operations of pension and terminal saving schemes. Our next priority is to upgrade the employer sponsored pensions and terminal benefit schemes encompassing constitution, administration and operation aspects. As these schemes are in existence and operate under different laws, we will follow a gradual reformation programme. In the first instance, guidelines would be framed and shared with the stakeholders. Thereafter, these guidelines once these become industry norms and practices, would be codified as regulations and laws.

A comprehensive regulatory framework for REITs was introduced last year to incubate REITs in the most investor friendly environment. We envisage new brands to emerge in both financial and real estate markets which would add value for both investors and consumers. We see couple of REIT Schemes to be launched in midterm and believe that these projects will start an era of organized real estate development in the formal economy, generate employment, reduce the housing deficit and diversify the investor base in Pakistan. A cross functional and dedicated in house team is already in place to support the launch of upcoming REIT schemes.

Modaraba sector being a unique Islamic business model can contribute significantly towards NBF sector. To prove that the Islamic financial system is truly a robust and viable alternative to the conventional system, the Modarabas has to re-assess their role and develop a future roadmap to address the various issues currently faced such as discounted market values, product innovation, resources mobilization, unique and specialized services etc. to make themselves a vibrant and strong segment of the non bank financial sector. We are considering converting and bringing this Islamic business structure under the ambit of NBFCs regime provided that existing legal impediments are taken care of at every forum.

SECP

Chapter 8

INSURANCE DIVISION

9 INSURANCE DIVISION

9.1 Introduction

Insurance Division (ID) regulates the insurance sector, including life and non-life companies, takaful operators, insurance intermediaries and bodies connected with insurance business in Pakistan. In addition to monitoring & supervision, it is also responsible for policy reforms.

9.2 Operational Structure

ID has been divided into the following three wings:

- Life Insurance Wing
- Non-Life Insurance Wing
- Takaful Wing

Although the Insurance Ordinance 2000, (Insurance Ordinance) addresses major aspects of insurance business, yet it lacks the depth prevalent in the legislations of other developing countries. Major emphasis has been only on compliance. However, more proactive regulators in the region have demonstrated a strategic balance between market development & regulation.

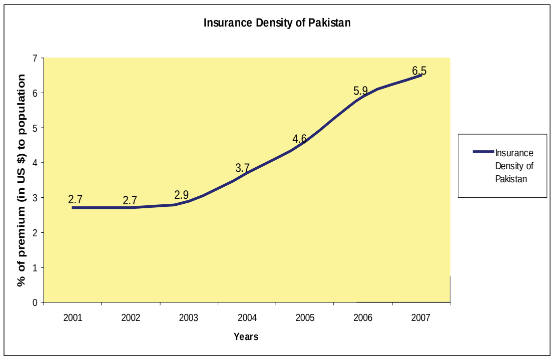
9.2.1 Management Team

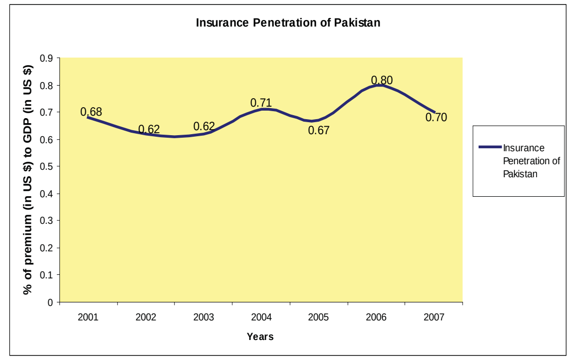
In April 2009, Nasreen Rashid joined the Commission as the Executive Director to lead the ID. She is an Associate from the Chartered Insurance Institute (ACII) of London and has been a career insurer with over 15 years of rich experience.

Officers of Insurance Division Karachi with ED Nasreen Rashid

9.3 Sector Overview

Insurance plays a vital role in the development and growth of the national economy. The Insurance Industry in Pakistan, however, continues to show sluggish growth year on year. Currently, the insurance penetration in Pakistan is only 0.7% of the GDP, which is one of the lowest in the world. Additionally, the insurance density is also a meager 6.5%. Pakistan has a huge population of 170 million, with immense potential of growth in the Personal Lines of business, but unfortunately uptil now, our industry has been focusing only on the Commercial Lines of Insurance. Furthermore, unlike the more developed markets, only B2B selling is prevalent which has become expensive and has begun to erode profits and reserves.

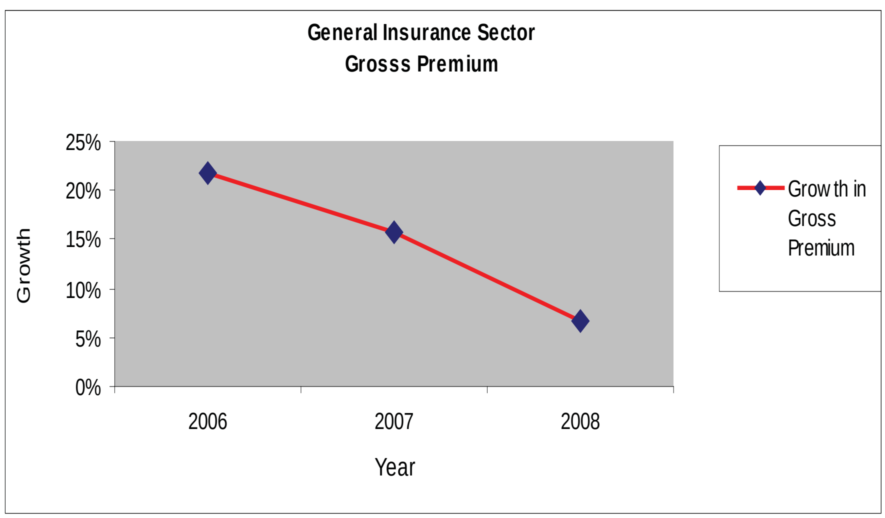




The main reason for the dismal performance of the insurance sector is that the insurance industry had not prepared itself to face the challenges of globalization. Now that the Information Technology has totally transformed the world, the pace of change has become phenomenal. Resultantly, our market dynamics have also undergone a major change. The market is rapidly maturing and the margins are shrinking. In order to survive this impact, the Industry will have to reposition itself and change its business model.

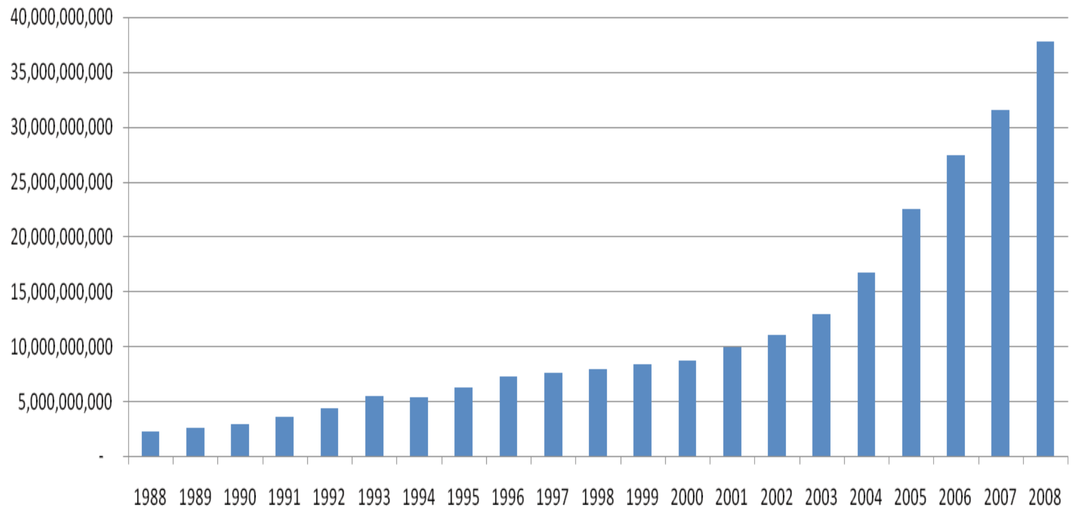
9.3.1 General Insurance Sector

Currently there are 32 General (non-life) Insurance Companies operating in the market. Approximately 63% of the market share is with the top three players. During the last year, underwriting of 14 companies was ceased due to capital and solvency deficits, while the winding up proceeding against 12 companies is in process. Considering the small revenue base of the sector, which stands at only Rs. 40.6 billion, effective steps need to be taken to promote mergers and acquisitions.



In 2008, the sector grew by only 6%. If the expense allocation in the profit & loss statements is standardized as per international best practices, the underwriting result of the private sector will reflect a loss of Rs.1.3 billion. The main reason for this bleak performance is that the net expense ratio of the sector stands at 36%, which is extremely high. The profit margins of the industry are likely to shrink further due to customer awareness and rapidly maturing markets.

General Insurance Sector
20 years performance

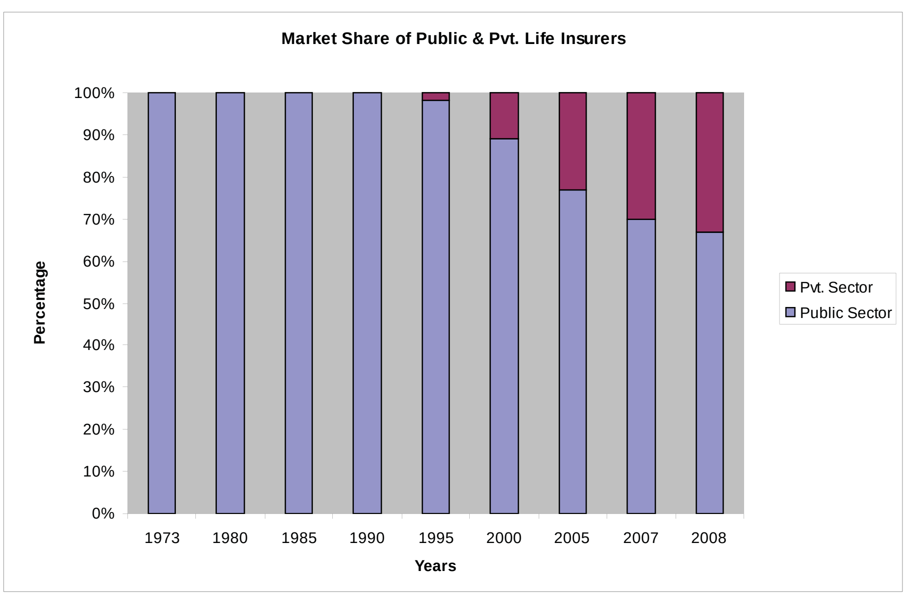


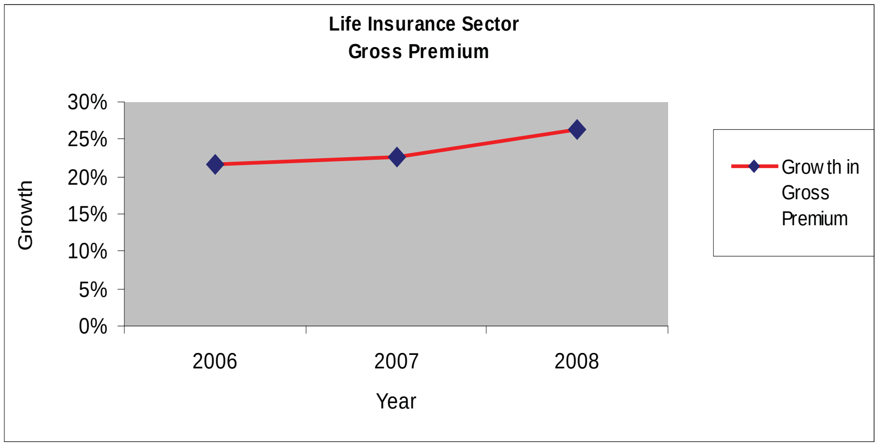
The market has witnessed introduction of new products like health, crop and livestock insurance. New distribution channels such as Bancassurance, Websales, and Telesales have also recently emerged.

9.3.2 Life Insurance

The life insurance market grew by 23% in 2008. As the State Life Insurance Corporation (SLIC) grew by only 18%, its market share was further eroded to 65%. However, the private sector grew by 37%.

There are nine life insurance companies in the market. This includes 2 new entities with foreign partnership. The top 3 insurers are holding 96% of the market share. The market share of two Family Takaful operators is merely 0.38%.





9.3.3 Takaful Sector

Like all businesses, Takaful is also market driven and requires a multichannel distribution outreach to be sold effectively. Due to its inherent Islamic and ethical element, Takaful has a stronger appeal to an individual rather than to a business, therefore a B2C selling approach should have been the right model. But unfortunately, the concept of retail insurance is new to the muslim countries. Even in Malaysia, Takaful is approximately 10 to 12% of the total insurance market.

9.4 Performance Review

9.4.1 Appeals Status

A total of 14 appeals were pending with the ID. All the appeals have been heard & orders have been passed in 10 cases. Four appeals have been adjourned on the request of the appellant/ respondent.

9.4.2 Licenses of Surveyors

During the year, 203 Insurance Surveying and 303 Authorized Surveying Officers (ASOs) licenses were renewed. Additionally, fresh licenses were issued to 12 Insurance Surveying Companies and 39 ASOs.

9.4.3 New Licenses

License to one insurance company and one broker is under consideration.

9.4.4 Minimum Statutory Deposit

The Commission has deleted Rule 9 of SEC Insurance Rules, 2002 relating to minimum statutory deposit and adopted Section 29(2) of Insurance Ordinance, 2000 which requires maintaining the statutory deposit with the State Bank of Pakistan, at a level of Rs.10 million or 10% of the Insurer’s Paid-up Capital, whichever is higher.

9.5 Monitoring and Enforcement

One of the major objectives of ID is to ensure that frauds and abuses do not become systemic and eventually erode the confidence of the policy-holders and the investors. The following actions were taken during the year to protect the interests of the policy-holders.

9.5.1 Enforcement Actions

A total of 48 show cause notices were issued for non-compliance of the Insurance Ordinance and related rules. Three directions under section 170 and 4 directions under section 472 of the Companies Ordinance, 1984 have been given to comply with the regulatory & statutory requirements.

On-site inspection of 5 companies was conducted which revealed significant non-compliances and violation of relevant laws and regulations.

Trading of shares of 4 listed insurance companies was suspended during the year due to non-compliance of the various provisions of the Insurance Ordinance.

Proceedings of winding up against 12 insurance companies were initiated, due to non-compliance of law as specified under section 305 of the Companies Ordinance, 1984. The business of 14 companies was ceased to enter into new contracts of insurance business, in the best interest of the policyholders.

Public notices were published in leading English & Urdu newspapers to inform the general public about the ceased and winding up companies.

Off-site inspection of the entire insurance industry for the current year is being conducted and appropriate actions will be taken to address the non-compliance.

9.6 Development of Legal Framework

It is the primary objective of ID to continue with the exercise of policy reforms with the ultimate goal of creating a conducive environment for the rapid growth of insurance density and penetration. ID has taken up the following initiatives during the year to promote the orderly development of a financially sound and transparent insurance industry, thereby increasing the insurance penetration in Pakistan.

9.6.1 Amendment in Insurance Surveying Rules

The amendments in these Rules will not only bring transparency in this sector but will also be a key driver towards enhancing the market image and credibility of the surveyors

9.6.2 Bancassurance Guidelines

The market has witnessed introduction of new distribution channels such as Bancassurance, Web Sales and Telesales. To monitor sales through these channels and also to promote an orderly growth, a new set of guidelines needed to be formulated. The guidelines on Bancassurance have been finalized keeping in view the international best practices and are ready for notification. These will help in bringing about the required level of disclosures and standardization in this new channel of distribution.

9.6.3 Amendment in Takaful Rules 2005

The takaful industry in Pakistan is still in its infancy. Like islamic banking, it is also going through a period of experimentation. During this process of transition, it needs to be guided by the Regulator in the right direction. Since the models of takaful vary depending on different interpretation of Shariah by various countries, there is an urgent need for standardization.

The Takaful Rules 2005 are being modified by appointed consultants with the objective of removing the anomalies and addressing the areas which are silent in Takaful Rules, 2005.

9.6.4 Amendment in Solvency Related Rules

One of the major reasons why Pakistan's insurance industry lags behind other vibrant sectors in the region is that the solvency criteria has not evolved in line with the rapidly changing local and global market dynamics. The solvency rules will go a long way in improving the financial health of the insurance companies enabling them to adequately protect the interest of the policy holders.

9.6.5 Unit Linked/ Products Regulations

As most of the investment risk in Unit Linked policies is borne by the policyholders and the products have complex benefit structures, ID felt the need for more effective monitoring controls.

A committee comprising members from the Commission, ICAP & Pakistan Society of Actuaries (PSOA) was formed to draft new regulations. These regulations aim to achieve more transparency in disclosures by the insurance companies to the policyholders regarding unit-pricing and fund management. These rules will also lead to the standardization of the pricing models used by different life insurers.

9.6.6 Life Insurance and Family Takaful illustrations

In order to show the benefits payable under a Life Insurance Policy to a prospective policyholder, different life insurers have been providing information in the form of illustrations. The objective is to show the projected growth of policy with regard to surrender values and/or death benefits payable under the policies. Life insurance companies are currently using various formats for illustrating the benefits payable under the policies; particularly, the investment (unit) linked policies. Thus, the illustrations have been found to be inconsistent and lacking standardization. In view of the above, the SECP is the process of formulating Guidelines for Life Insurance & Family Takaful Illustrations 2009.

9.7 Work in Progress

9.7.1 IFRS-4

International Financial Reporting Standard-4 (IFRS-4) were issued by the International Accounting Standards Board (IASB) in March 2004 to bring standardization and transparency in the accounting practices of Insurance Contracts.

In 2007, an Insurance Committee was constituted by ICAP comprising members from the Commission, Insurance Association of Pakistan (IAP), and the PSOA to assess the implications of its adoption on the insurance industry in Pakistan. This committee is finalizing guidelines for the insurance industry for implementation of the requirement of IFRS-4. It will also conduct workshops to train the insurance industry.

9.7.2 Early Warning System

Broad financial indicators have been defined in the Insurance Ordinance, but a specific framework for an 'Early Warning System' is not available. ID has scrutinized the tools being used by dynamic regulators in the region and shall customize them to the local environment.

9.7.3 National Crop Insurance Scheme

A task force under the Chairmanship of President HBL has been set up by SBP to formulate the National Crop Insurance Scheme in consultation with the stakeholders. The Commission is a member of this task force. Expertise is available within ID, with hands on experience of leading the Crop Loan Scheme which was successfully launched in Pakistan last year.

9.8 Future Plans

9.8.1 Terrorism Pool

As recent terrorist activities in major cities – notably, the September 11, 2001, attacks in the United States and the current war on terror going on in Pakistan – have made strikingly clear, terrorism has developed into a threat that affects every aspect of society and knows no national boundaries.

Large-scale terrorist attacks can threaten insurers' assets from two sides: insurance companies would sell assets to generate the liquidity required to pay major claims in multiple business lines-life, health, property, etc. –and at the same time see the values of those assets considerably diminished due to the reaction of the capital market to the terrorism event. As a result, the overall potential loss for insurance may be significantly higher than the loss from the coverage alone.

In the light of these facts, it must be concluded that loss events beyond a certain scale-notably, not only affect society and the economy but also surpass the risk capacity of the insurance industry. The only answer is a concerted effort in which governments work hand in hand with insurers and reinsurers. Effective solutions involve a risk partnership between insureds, insurers, reinsurers, capital markets and governments. In such risk partnerships, governments should primarily act as facilitators in order to protect the financial resilience of the insurance industry. As risk carriers of last resort, they are the only bodies capable of providing sufficient capital to insure against the most extreme terrorist attacks. And as regulators, they ensure that adequate and coherent legislative frameworks are in place.

Most countries in the world have developed Terrorism Pools as a result of public private partnership. Pakistan also needs a Terrorism Pool on an urgent basis.

9.8.2 Guarantee Fund and the Protection of Policyholders in the event of Failure

Around a quarter of jurisdictions oblige the insurance companies to set up a separate Fund in order to protect the policyholders in the event of the company's failure. Such a Fund generally consists of ring-fenced (segregated) assets within the company's assets or of a deposit with the supervisory authority or other government authority. However, a larger proportion of jurisdictions have some form of pooled Fund or arrangement, serving to cover claims in the event an insurer fails. Such a Guarantee scheme is most common for motor third party liability insurance, although many jurisdictions also have such a scheme for other types of compulsory insurance or even the entire life or non-life sectors.

A guarantee Fund is urgently required to be set up in Pakistan especially because during the last 2 years, 26 general insurance companies have been ceased and the interest of policyholders has been affected, who have no other recourse in the absence of a Guarantee Fund. The Statutory deposit amount is too low to cater to the high liabilities of the ceased companies.

9.8.3 Health Insurance

There are two dedicated health insurance companies registered in Pakistan. Additionally, a few other insurers are also offering group health products to their corporate clients. The major demand in the market, however, is individual health. This demand cannot be met by companies unless they leverage 'state of the art' technology to distribute products on competitive terms to the masses. SECP needs to provide guidance to the industry and facilitate the establishment of 'Third Party Administrators' which enable cashless transactions to the insured.

9.8.4 Micro-Insurance

In Pakistan, micro insurance is in its nascent stage whereas in India, the Regulator has been playing a pro-active role since the year 2005. The Micro-Insurance Regulations are also in place. Micro insurance should be bundled with microfinance, so that it can provide a big boost to this segment.

In this regard the Commission will be formulating a taskforce to develop the regulatory framework to mandate micro insurance for both public and private sector insurers and to design training programs for preparing specialized manpower for distribution of micro insurance products.

9.8.5 Compulsory Motor Third Party Insurance

To eliminate the issuance of bogus motor third party compulsory insurance certificates by unauthorized persons/entities and to ensure that all vehicles on the country's roads have proper insurance cover issued by registered insurance/takaful companies, SECP, after detailed deliberations with the Insurance Association of Pakistan, had agreed on a comprehensive proposal. After approval from the Ministry of Finance, this was conveyed to the respective provincial governments who have not taken any steps as yet to make the necessary amendments in the law.

The Commission will pursue this matter actively with all the provincial governments so that this bogus practice is stopped once and for all.

9.8.6 Registration & Compliance Guidelines

ID will publish a guide in order to ensure that registration and compliance becomes inexpensive and simple to understand. The objective is to explain the process in clear and unambiguous terms so that it becomes easier for the insurers and brokers to register and trade in Pakistan.

Chapter 9

SUPPORT FUNCTIONS

Law Division
Appellate Bench
Finance Department
Human Resources and Training Department
Administration Department
Information Systems and Technology Department
Internal Audit

SUPPORT FUNCTIONS

10 Operational Structure

10.1 Structure

Support Functions are responsible for facilitating the core operational divisions of the Commission and ensuring their smooth functioning. It has been organized into the following:

- Law Division
- Appellate Bench
- Finance Department
- Human Resources and Training Department
- Administration Department
- Information Systems and Technology Department
- Internal Audit

10.1.1 Management Team

Support Functions work under the direct supervision of the Chairman, Mr. Salman Ali Shaikh. Mr. Javed K. Siddiqui, Executive Director, heads the Finance Department, Mr. Mansur Ahsan, Executive Director, heads the Human Resource and Training Department, Mr. Nazir Ahmed Shaheen, Executive Director heads the Administration Department, and Mr. Arshad Javed Minhas, Executive Director, heads the Information Systems and Technology Department.

10.2 LAW DIVISION

10.2.1 Operational Structure

(a) Structure

Law Division (LD) functions as an independent division. It operates with the mandate to independently manage the legal affairs of the Commission and to provide impartial legal advice to each operational division.

(b) Management Team

Mr. S. Tariq Asaf Husain Commissioner oversees the working of the Law Division. Mr. M. Ashraf Tiwana is Director Law and the administrative head of the Legal Department. He also directly manages the Advisory and Litigation Wing. Mr. Sultan Mazhar Sher is Director Law and heads the Legislation Wing.

LD has been divided into the following three wings:

- Advisory Wing
- Litigation Wing
- Legislation Wing

Officers of Legal Department with Director Mr. Ashraf Tiwana

10.2.2 Advisory Wing

Advisory wing of LD advises the operational divisions and departments on a number of wide-ranging and important issues. The wing is responsible for negotiating and drafting agreements, MOUs, preparing and reviewing show cause notices to be issued by the operational departments. In addition, 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 capital market.

(a) Scope of Work & Statistics

Advisory wing provided more than 205 written opinions during the year under review. The major legal issues raised in the opinions included:

- Procedural and substantive laws pertaining to Self Regulatory Organizations, Share Depositories, Clearing Houses, Brokerage Houses and other professional intermediaries.
- Scrutiny of investor complaints and suggesting availability of legal and quasi legal forums to provide relief.
- Insider trading laws, market manipulations and other fraudulent acts as prohibited in securities laws.
- Applicability of Takeovers law and sanctions available to the Commission for contraventions.
- Guidance and resolution in instances of conflict of laws.
- Issuance of shares, indirect acquisition, sale and repurchase of shares
- Delegation of powers.
- Suitability of sanctions that may be imposed by the Commission including imposition of fine, issuance of directives and cancellation of licenses.
- The viability of initiating legal proceedings in courts of competent jurisdiction.
- Imposition of sanctions on company management for contravention of statutory requirements enacted for the purposes of inculcating transparency and accountability.
- Steps to be taken when the Commission's power is invoked during the pendency of a case in a court of competent jurisdiction.
- Clarification regarding the statutory requirements imposed by the Companies Ordinance 1984
- Advice of the future course of action during inquiries and proceedings in light of technical hurdles.
- Opinion on applicability of section 16 of SEO 1969, scope of section 18-A SEO 1969, interpretation of Companies (Invitation and Acceptance) Deposit Rules 1987, inquiry against Takaful Company, inquiry against Five Brokerage Houses.

10.2.3 Litigation Wing

Litigation wing's core responsibility is to manage all litigation instituted by or against the Commission whether civil, criminal or corporate in nature and to defend and protect the Commission's interest in the courts of law. Its functions include maintaining and updating litigation records and database, appointment of lawyers and ancillary matters thereto, co-ordination with external lawyers as well as operational departments, preparing and examining pleadings etc. Lawyers working in the Litigation wing regularly appear before courts including the Supreme Court of Pakistan and the High Courts to represent the Commission.

10.2.4 Scope of work & statistics

Litigation wing defends the Commission's interest in the Courts and also provides assistance to the Courts in matters related to laws administered by the Commission. During the last fiscal year Litigation wing dealt with cases involving the following issues:

- Amalgamation and merger petitions
- Winding-up petitions
- Rectification of Register of Companies
- Criminal complaints on insider trading
- Criminal complaints pertaining to price manipulation
- Proceedings against the management of the companies under Ordinance and other laws administered by the Commission
- Cases related to investor complaints against brokers, investment banks etc.
- Service matters
- Suits for damages against the Commission
- Human Rights Commission cases before Supreme Court
- Constitutional Petitions

As of June 30, 2009 the total number of cases filed by and against the Commission that are pending before different courts of Pakistan are close to 600. Moreover, in one of the cases recovery of Rs. 100 million embezzled amount was effected.

10.2.5 Legislation Wing

The Commission constantly seeks to update its regulatory framework and fill any gaps or loopholes in the laws administered by it. Legislation wing performs the important function of drafting legislation to be administered by the Commission and also reviews draft laws developed by the Federal Government and statutory bodies. The wing, in consultation with Advisory wing, also examines the laws administered by the Commission and proposes amendments where deemed necessary.

(a) Scope of work

During the year under review, the Legislation wing performed the following legislative functions in consultation with the respective operational divisions/departments:

(b) New Laws

- Drafted Group Companies Registration Regulations, 2008.
- Revised the NBFC Regulation, 2008.
- Drafted the Private Equity and Venture Capital Regulations, 2008.
- Drafted Listed Companies (Substantial Acquisition of Voting Shares and Take-Overs) Regulations, 2008.

(c) Proposed Amendments in the Existing Laws

- Appointment of Legal Advisors Act, 1974
- Securities and Exchange Ordinance, 1969

- Chartered Accountants Ordinance, 1969
- Companies Ordinance, 1984
- First Schedule of the Companies Ordinance
- Sixth Schedule of the Companies Ordinance, 1984
- Insurance Ordinance, 2000
- Takeover Ordinance, 2002
- General Form and Provision Rules, 1985
- Companies Invitation and Acceptance of Deposits Rules, 1985
- Issue of Capital Rules 1996
- Insurance Rules, 2002
- NBFC Rules, 2003 and
- Companies Registration Offices Regulations, 2003

Legislation wing remained actively involved in the ongoing exercise to completely revamp the existing laws administered by the Commission. The new laws which are in process of development are the Draft Corporate Rehabilitation Act,Draft Securities Act, Draft Futures Trading Act, Draft Securities and Exchange Commission of Pakistan Act, and Draft Demutualization Act.

10.2.6 Legal Wing - South

In year 2006 Legal wing was set up in Karachi to manage the legal affairs of the Commission for the southern region. Legal wing primarily provides legal advice to operational departments and represents the Commission in litigation matters before Sindh High Court and Karachi District Courts. Legal wing (South) is also responsible for liaising with the Head Office on legal issues of the operational departments.

10.2.7 Future Plans

LD plans to undertake the following activities over the coming year.

1. Introduce a revamped court case database, which would be more interactive and user friendly.
2. Complete automation of advisory wing to make it paper free.
3. To create a complete scanned data base of legal advises, for ease of reference and to avoid duplicity in the work.
4. Develop standardised documents and templates for use by the operational division/ departments.
5. Issue an online quarterly newsletter for the benefit of the operational departments covering legal issues facing the Commission.

10.3 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. The Registrar, administratively, reports to the Commissioner, S. Tariq Asaf Husain.

The Appellate Bench of the Commission is statutorily mandated to hear appeals filed against the orders either passed by a Commissioner or any other officer authorized by the Commission. To hear appeals the Appellate Bench must comprise of at least two Commissioners.

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

During the year, 44 appeals were filed before the Appellate Bench against orders passed by Commissioners, Executive Directors and Directors. The Appellate Bench disposed off 40 appeals during this period.

10.4 FINANCE DEPARTMENT

The Finance department (FD) is responsible for all matters relating to functions of accounting, financial reporting, treasury management, payment processing and budgeting. Multi-user accounting software is being used and a sound accounting system is in place. The department follows transparent and effective internal control system. Policies and procedures are well defined, regularly reviewed and improved upon, and consistently adhered to. Annual accounts are prepared under the framework of IFRS as applicable in Pakistan and audited by a leading firm of Chartered Accountants. FD has two wings which perform the following functions:

Officers of Finance Department with ED Mr. Javed K. Siddiqui

10.4.1 Finance Wing

The Finance wing is responsible for managing payment processes for authorized transactions while ensuring adherence to the established policies and procedures. It also accounts for all revenues of the Commission, manages profitable and secure investment of surplus funds in accordance with approved policies and liaises with banks to ensure that banking arrangements are adequate. The wing ensures that all financial transactions are processed and recorded in accordance with internal controls adopted by the Commission.

10.4.2 Accounts Wing

The Accounts wing is entrusted with all accounting functions and responsible for preparation of budget and its approval by the Policy Board. It also exercises budgetary controls and monitors actual expenditure against budgeted limits. It issues monthly Management Information Reports for the Commission highlighting division/department wise financial results. The wing is also responsible for maintaining proper books of accounts of the Commission. The wing also ensures that financial statements are prepared in accordance with IFRS, and audited financial statements are made available for approval of the Commission within one month of close of the financial year.

10.5 HUMAN RESOURCES & TRAINING DEPARTMENT (HR & TD)

The HR & TD is responsible for facilitating overall operations of the Human Resources at the Commission. It is structured into the following two wings:

- Human Resources Wing
- Training Wing

The Financial Year 2008-09 has been a challenging year for the HR & TD. Keeping in view the Commission's objectives and employees' expectations, a number of initiatives were taken. A few of them are as follows:

1. Promotion policy for staff
2. Perception Survey
3. Promotions of officers & support staff
4. In house trainings
5. Medical camps & cricket matches

Officers of Human Resources Department with ED Mr. Mansur Ahsan

10.5.1 Promotion Policy for Staff

HR & TD recently announced a promotion policy for all non officers. It is a clear, step wise procedure laid out for all non officer promotions in future.

10.5.2 Perception Survey

The third phase of the Climate Survey was completed in the year 2008-09. Perception survey was conducted to profile the alignment between the Commission's stated mission and actual workforce beliefs and behaviors by addressing topics such as trust in leadership, team building, communication, job involvement and perceptions of future growth. The results indicated that a sense of community, a shared vision and a positive outlook existed in the Commission.
The first two phases were executed in the year 07-08:

- As a first step, Climate Survey was conducted to assess the culture's capacity to support individual, group and organizational growth. It further aided in determining the morale, job stress, organizational learning, teamwork, employee health and productivity.
- Super ordinate survey was carried out to elicit opinions from various divisions about their management.
- Perception survey, in the third phase was conducted to gain a holistic opinion of the top management.

The whole activity gave a clear picture of the prevalent culture and the perception about the top management. The results are being used to induce improvements in systems where needed.

10.5.3 Promotions of Officers

In continuation of the Promotion Policy introduced in 2006-07 and implemented subsequently, a total of 48 officers were promoted in 2008-09.

(a) Promotions of Support Staff

The implementation of the promotion policy of staff was started right after the policy was laid out. Based on recommendation by the respective divisions/department, a total of 62 office attendants/drivers and 14 Support Staff were promoted.

10.5.4 In-House Trainings Initiatives

Two to three hours in-house training initiatives on various topics i.e. leadership, team building, positive attitude were conducted. This was done to increase learning at workplace. All divisions have been covered under the first leg of the program. This initiative is a continuation of HR & TD efforts towards capacity building.

10.5.5 Medical Camps

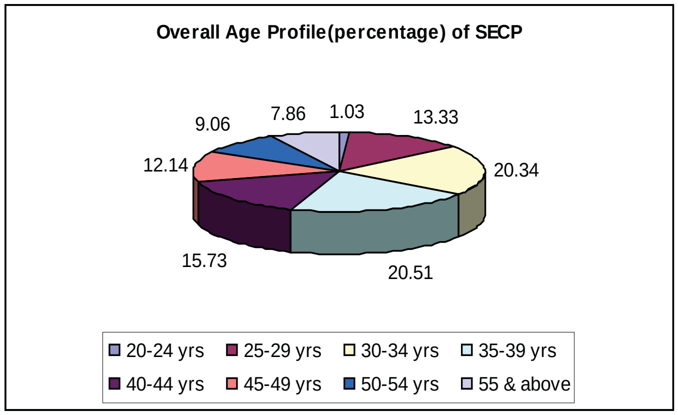
A number of medical camps were held throughout the year for all employees and their families under the supervision of Dr. Rubina Tahir, Chief Medical Officer of SECP. Various pharmaceutical companies visited the Commission and conducted 2-3 hours sessions on different diseases. All patients diagnosed with deranged levels were also provided with post medical follow-up. These camps are part of a comprehensive medical policy announced for all employees last year.

10.5.6 Cricket Tournament

An inter departmental cricket tournament was organized. The aim was to encourage informal communication amongst employees. Besides that, matches are also a source of healthy entertainment and relaxation after hectic work schedules.

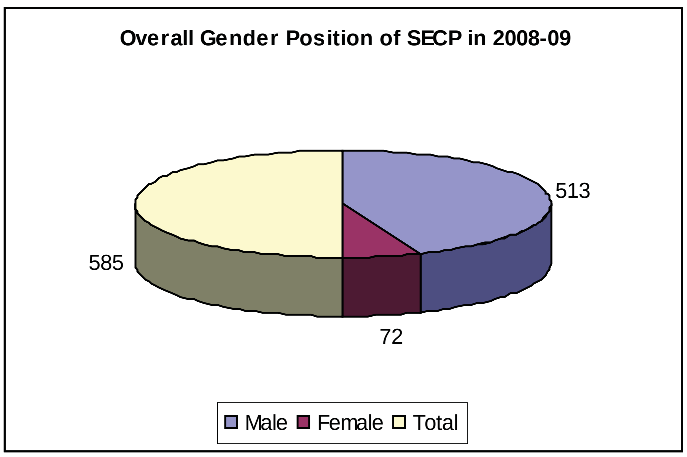
10.5.7 Overall Age profile of SECP Employees

Sr. No	Age Group	Total	% of Total
1	20-24 yrs	6	1.03
2	25-29 yrs	78	13.33
3	30-34 yrs	119	20.34
4	35-39 yrs	120	20.51
5	40-44 yrs	92	15.73
6	45-49 yrs	71	12.14
7	50-54 yrs	53	9.06
8	55 & above	46	7.86
Total		**585**	



10.5.8 Gender Position in SECP

Officers & Support Staff			
Cadre	**Male**	**Female**	**Total**
Officers	251	57	308
Staff	262	15	277
Total	**513**	**72**	**585**



10.6 ADMINISTRATION DEPARTMENT

10.6.1 Responsibilities & Activities

The Administration department administers comprehensive activities and functions of procurement and support services to provide the facilities to Commission and CROs all over Pakistan in developing efficient procedures and a competitive environment.

These include records management, property management, arrangement of transport, procurement of goods & services, official vehicles repair & maintenance, formulating and managing administration related policies, procedures and information system, coordinating supplies and services, arrangement of furniture & fixtures and maintenance of office premises, including up keep of children day care center established at the Commission for the convenience of employees.

Officers of Administration Department with ED Mr. Nazir Ahmed Shaheen

10.6.2 Work in Progress

The Administration department is undertaking a number of activities to improve its services. These include: improvement in day care center facilities, establishment of an on-line help desk for lodging of the complaints and submission of suggestions and to speed up the process of complaint handling, enhancement of indoor/outdoor security in order to provide the employees a safe working environment, procurement of PABX for CRO Islamabad and Lahore, procurement of generators for CROs Peshawar, Multan and Faisalabad, disposal of the Commissions old vehicles, renewal of Internet service agreement, completion of 4th floor's renovation and renewal of courier services agreement.

10.6.3 Future Plans

Through continuous efforts and dedicated services Administration department looks forward to improve its services through taking various effective and creative measures. The following proposals are underway for the benefit of employees of the Commission:

1. ATM cash machine installation in the ground floor lobby of NICL building.
2. Renovation of 3rd floor and making of a mini gym, changing rooms, a mini cafeteria, meeting rooms, training class room and a visitor's lounge.
3. Revision of procurement policy.
4. Assets disposal procedure.
5. Purchase of land for the Commission's building.
6. Installation of anti shatter/blast proof film through NICL management.
7. Renovation at SRO Karachi.

10.7 INFORMATION SYSTEMS AND TECHNOLOGY DEPARTMENT

10.7.1 Enhancing Use of Technology

Information Systems and Technology Department's (IS & TD) role at the Commission is to provide information technology support, to build the Commission's information infrastructure.

To build and create IT infrastructure and environment, the IS & TD is following International Quality Standards ISO 9001:2008 in the design, development and implementation of IT solutions and services.

Most current and forthcoming major IT solutions and services projects of the Commission driven by Information Technology are eServices Project; Market Surveillance System; Business Continuity and Disaster Recovery Centre; Scanning and Archiving; Information Security Management System, etc.

In various IT projects the E-Government Directorate (EGD), (ADB), and Pakistan Software Export Board (PSEB) provides technical and financial assistance.

The department's solutions and services extent range from management support functions, MIS, decision support applications to specialized applications, network connectivity and central server systems. The major areas of operations include design, development, implementation and maintenance of software and database systems, LAN / WAN connectivity and central services, managed workstation services, hardware maintenance services and training of IT products and services.

Officers of IS&T with ED Mr. Arshad Javed Minhas

10.7.2 Structure

The department has four distinct functional management units: Applications Management Unit, Systems Management Unit, Networks Management Unit, Databases & Data-Warehousing Management Unit and two functional groups: Business Process Management Group and Quality Assurance Group. The Quality Council and Information Governance & Security Council have been constituted to monitor, review, comply and update quality and information security related policies and procedures according to the international standards.

10.7.3 Major projects undertaken by the Department

Following are some of the major projects developed under the Applications Management Unit:

(a) eServices Project

In order to submit statutory documents electronically by registered companies, to reduce paper work and improve the Commission's business processes management, this project was initiated four years back. The project was funded by EGD.

The project was completed successfully and is at transition phase. Through eServices Online Portal, the Registration Department's various business process services have been automated and made electronically available to the corporate sector. In parallel a complete Business Process Management (BPM) suite has been implemented, ensuring end-to-end digitalization. This BPM suite facilitates the Commissions officials in electronic decision making process.

As the broader scope of the eServices project is not limited to Registration Department only, the various business process management solutions for other divisions and departments will also be available in near future.

(b) eServices Extension Projects

Following are a few eServices Extension projects:

(i) Foreign Company Module

The Foreign Companies Module of eServices implements 9 business processes. These business processes include legislative requirements as prescribed in the Ordinance, and rules made thereunder. Foreign Companies module is under development.

(ii) Specialized Companies Return Submission & Analysis Modules

Specialized Companies Return Submission System (SCRS) will be used for the submission and consolidation of the financial data submitted by NBFCs. This application is designed to support the rapid and reliable submission of information. System has been developed successfully and now is in testing phase. System will be deployed in near furture.

Specialized Companies Return Analysis (SCRA) will be used for the analysis and reporting of the financial data already submitted through SCRS system.

(iii) e-Reporting Status Module

eReports status module is used to generate management, statistical and staff related reports from data gathered by eServices and its process flow activities. It is now in transition phase.

(c) Market Monitoring and Surveillance Solution

Market Monitoring and Surveillance System namely “AWACs” has been deployed that analyzes the real time data feeds from the three stock exchanges and generates a number of alerts and reports related to various types of market manipulations. The availability of market information on real time basis through this system enables the Commissions officials to measure performance and monitor stock market’s activities, which will assure the market’s fairness, efficiency and liquidity. The critical analyses functionality of the stock market is available in a separate module of this system.

(d) Scanning and Archiving Project

The project was meant to scan and archive all documents located at the Commission and CROs. With the successful implementation of this project, the Content Management System is now archiving the scanned documents along with metadata in a repository.

(e) Insurance Industry Regulatory System (IIRS)

The IIRS was developed to facilitate the Insurance Division to carry out its functions. IIRS can electronically import insurance industry’s data with statistical and analytical tools designed to facilitate in examining, analyzing and rating financial condition of insurance companies.

Some of the major projects being carried out by the Systems and Database Management Unit are as follows:

(f) Establishing Business Continuity and Disaster Recovery Centre

To counter interruptions to business activities and to protect critical business processes from the effects of major failures of information systems or disasters and to ensure their timely resumption, the Commission has approved establishment of Business Continuity and Disaster Recovery Centre at CRO Lahore. This project is in its implementation phase and site preparation is underway

(g) Establishing New Data Centre

New data centre was established successfully for which UPS and related hardware infrastructure was installed.

(h) Server Consolidation and Virtualization

This project was initiated two years back after a very comprehensive testing against needs and requirements of application servers and to handle activities such as: centralization, data integrity, application integration, reduced infrastructure and business continuity costs. Server consolidation and virtualization can resolve the increasing loads and processing requirements due to new joining of staffs and additional application demand. Planning, trainings, pilot deployment and testing activities have been completed successfully. Now actual implementation is in progress.

(i) Storage Up-gradation Project

This project was initiated to create the capacity for storing log files especially for securities market and Commission's important data for at least five years. In order to maintain the existing databases and related logs and to handle the real-time data coming from the stock exchanges, this storage up-gradation project is a comprehensive solution. It provides data storage and data archiving solutions at Primary and Disaster Recovery Site. The project has been completed successfully.

10.7.4 Work in Progress

During the year 2008–2009, a number of designing, development, implementation and maintenance activities for IT solutions and services are being carried out. Some of these activities are:

(a) ISMS Implementation

Realizing the threats to the confidentiality, integrity and availability of Commission's information assets, the department understands the need for implementing an Information Security Management System (ISMS) and its certification. ISMS ISO27001:2005 certification will give the department the ability to extend an existing QMS ISO9001:2000 to include Information Security without bringing in a whole new system.

To establish, implement and operate ISMS at planned intervals, and to ensure improvement and the need for changes in the ISMS, a Taskforce has been constituted. For establishing ISMS, the department is documenting their processes, procedures and policies in accordance with the ISO27002 standards.

(b) Revamping SEC's Official Website

To disseminate information effectively and in a timely manner to its intended users, the department has revamped the official website of the Commission by improving navigation and aesthetic features. A separate section for Securities Market updates has been introduced where daily Market and NCEL reports are archived as well as drafts of upcoming rules and regulations are placed over the website for stakeholder discussion and suggestions.

(c) News Management System

The regulatory responsibilities of the Commission put a demand on its officials to keep abreast with the latest developments taking place in various sectors of national and international economy. An advanced News Management System has been developed by the Internal & External Communications Department (I & ECD) with the technological support of IS & TD.

(d) Physical Security

Physical security of entire IT infrastructure, especially server room has been ensured by installing automated locked doors, by administrative and authentication control, and by tightening security with vigilant monitoring.

10.7.5 Future Plans

Some of the projects planned for the next fiscal year are mentioned below:

(a) QMS ISO 9001:2008 Re-Registration Audit

Annual 3rd party re-registration audit for Quality Management System of the department will be conducted to assure that its systems are in compliance with the international standards.

(b) ISMS ISO 27001:2005 3rd Party Certification Audit

An Information Security Management System (ISMS) will be established, implemented, operated, and maintained within the department assuring confidentiality, integrity and availability of the Commission's electronic information assets. First 3rd party Certification Registration audit for ISMS will be conducted to assure that its systems are in compliance with the international standards.

(c) Network Vulnerability Tools

To ensure system/network security management, network fault detection and troubleshooting LAN/WAN infrastructure, IS&TD realizes the need for proper network vulnerability assessment tools.

(d) Capacity Building & Training Needs

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

(e) SEC Complaints Management System

SEC Complaints Management System is a web-based Issue Tracking/Complaints Management System designed for administration department to manage end user issues and keep them informed on request status and assist them in coordinating second and third line support. The system offers comprehensive reporting and tracking services and use Active Directory services for user authentication. It not only helps in tracking the progress of issue resolution, but also saves information about all issues in a database, allowing you to maintain data from past issues and projects.

10.8 INTERNAL AUDIT

Internal Audit department (IA) is an independent appraisal function within the Commission. The work of IA is governed under Internal Audit Charter and internal audit manual which covers the role to review the adequacy and effectiveness of the Commission's governance, processes, controls and risk management in implementing agreed strategies across the organization. The internal audit manual outlines the standards, guidelines and procedures for IA and encompasses a risk-based audit approach.

10.8.1 Performance During The Year

Internal Audit department carried out the following major activities:

- Review of payroll processing, petty cash management, revenue collection, travel, procurement and administration functions
- Revenue assurance assignment relating to registration, mortgage, penalties and other fees
- Audit of the Finance & Administration department of the Commission
- Review of internal controls on financial transactions
- Review and Audit of the financial and operational controls at the Company Registration Offices (CROs)
- Pre-Audit of all final settlement cases of the outgoing employees of the Commission
- Audit of Donor Funded Projects
- Special Assignments including human resource surveys
- Liaison with the external auditors.

At the end of each assignment, a report of observations and recommendations is submitted for necessary action by the division/department head. Adequate follow up is maintained to monitor progress in respect of significant audit concerns.

10.8.2 Future Plans

Internal Audit department endeavors to promote integrity, economy, efficiency and effectiveness in the Commission's programs and operations. Accordingly in the ensuing year, besides its routine operations, Internal Audit department has planned to undertake the following activities:

- Evaluation of current internal control through financial, operational and compliance audits and advising on control weaknesses.
- Audit of systems and various functions with in the Commission to highlight the improvement areas and to strengthen the rules and procedures governing those systems and functions.
- Ensuring more strict compliance with laws, rules and regulations at the CROs to promote better governance and professionalism with in the Commission.

Chapter 10

FINANCIAL STATEMENTS

Auditors' Report to the Federal Government

Balance Sheet

Income and Expenditure Account

Cash Flow Statement

Statement of Changes in Funds

Notes to the Financial Statements

A.F.FERGUSON & CO.

A member firm of PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITORS' REPORT
TO THE FEDERAL GOVERNMENT OF PAKISTAN

We have audited the accompanying financial statements of the Securities and Exchange Commission of Pakistan (the Commission), which comprise the balance sheet as at June 30, 2009 and the income and expenditure account, the statement of changes in funds and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements of the Commission for the year ended June 30, 2008 were audited by another auditor whose report dated November 20, 2008 expressed a qualified opinion relating to non provision of tax amounting to approximately Rs. 900 million for tax years 2003 through 2007. Related provision has now been incorporated in the books of account for the year ended June 30, 2009.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. 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. Those 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.

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Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Commission as at June 30, 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Chartered Accountants

Islamabad: 11 SEP 2009

Name of the audit engagement partner: S Haider Abbas

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
BALANCE SHEET
AS AT JUNE 30, 2009

	Note	2009	2008
		Rupees in thousand	
Property, plant and equipment	4	324,314	212,531
Intangibles	5	16,743	14,853
Long term investments	6	577,130	275,765
Long term loans to employees	7	26,658	12,753
Current assets			
Advances, deposits, prepayments and other receivables	8	248,010	259,120
Short term investments - available for sale	9	2,675,769	2,799,645
Cash and bank balances	10	19,594	62,492
		2,943,373	3,121,257
Current liabilities			
Accrued and other liabilities	11	(200,741)	(209,490)
Net current assets		2,742,632	2,911,767
Provision for prior years' taxation	21	(899,167)	-
Deferred taxation	12	(16,580)	(1,476)
Deferred liability	13	(32,127)	(21,741)
Deferred grant	14	(1,665)	(1,936)
Net assets		2,737,938	3,402,516
Represented by:			
General reserve		800,000	800,000
Assets (land and building) acquisition reserve		2,600,000	2,600,000
Surplus of income over expenditure		(662,062)	2,516
		2,737,938	3,402,516
Contingencies and commitments	15		

The annexed notes 1 to 26 form an integral part of these financial statements.

CHAIRMAN COMMISSIONER

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2009

	Note	2009	2008
		Rupees in thousand	
INCOME			
Fees and other recoveries	16	1,073,935	1,439,026
Other income	17	360,821	248,275
		1,434,756	1,687,301
EXPENDITURE			
Salaries, allowances and other benefits	18	648,010	542,103
Operating expenses	19	341,162	255,899
Depreciation and amortisation		114,008	61,954
Amortization of premium on Pakistan Investment Bonds		8,635	8,280
Bank charges		3,163	1,065
		1,114,978	869,301
EXCESS OF INCOME OVER EXPENDITURE		319,778	818,000
Amortisation of deferred grant		271	275
SURPLUS OF INCOME OVER EXPENDITURE BEFORE TAX		320,049	818,275
TAXATION			
- Current	20	58,390	284,920
- Deferred	20	15,105	1,476
		73,495	286,396
SURPLUS AFTER TAX FOR THE YEAR		246,554	531,879
Provision for prior years' taxation	21	(911,132)	-
(DEFICIT)/ SURPLUS AFTER TAX		(664,578)	531,879
SURPLUS OF INCOME OVER EXPENDITURE BROUGHT FORWARD		2,516	270,637
ACCUMULATED (DEFICIT)/ SURPLUS OF INCOME OVER EXPENDITURE		(662,062)	802,516
Transferred to assets (land and building) acquisition reserve		-	(800,000)
(DEFICIT)/ SURPLUS OF INCOME OVER EXPENDITURE CARRIED FORWARD		(662,062)	2,516

The annexed notes 1 to 26 form an integral part of these financial statements.

CHAIRMAN

COMMISSIONER

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009

	Note	2009	2008
		Rupees in thousand	
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus of income over expenditure before tax		320,049	818,275
Adjustments for:			
- Depreciation and amortisation		114,008	61,954
- Amortization of premium on Pakistan Investment Bonds		8,635	8,280
- Amortisation of deferred grant		(271)	(275)
- Provision for pension		39,057	69,027
- Provision for gratuity		33,959	24,560
- Provision for leave encashment		34,296	2,829
- Interest income		(712,810)	(244,523)
- Gain on sale of property, plant and equipment		(787)	(3,374)
		(483,913)	(81,522)
Operating income before working capital changes		(163,864)	736,753
Increase in loans to employees and advances, deposits, prepayments and other receivables		117,365	(105,178)
Increase in accrued and other liabilities		33,501	74,457
		(12,998)	706,032
Contribution to pension fund		(62,526)	(10,669)
Contribution to gratuity fund		(52,739)	(4,416)
Leaves encashed		(23,910)	(6,784)
Tax paid		(105,899)	(290,974)
Net cash (used in)/ generated from operating activities		(258,072)	393,189
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		(240,792)	(105,652)
Proceeds from sale of property, plant and equipment		13,898	6,601
Net increase in investments		(177,489)	(563,388)
Interest received on investments and bank deposits		619,557	227,456
Net cash generated from/ (used in) investing activities		215,174	(434,983)
Net decrease in cash and cash equivalents		(42,898)	(41,794)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		62,492	104,286
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	10	19,594	62,492

The annexed notes 1 to 26 form an integral part of these financial statements.

CHAIRMAN

COMMISSIONER

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
STATEMENT OF CHANGES IN FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	General reserve	Assets (land and building) acquisition reserve	Surplus of income over expenditure	Total
		Rupees in thousand		
Balance as at June 30, 2007	800,000	1,800,000	270,637	2,870,637
Surplus of income over expenditure for the year	-	-	531,879	531,879
Transfer to assets (land and building) acquisition reserve	-	800,000	(800,000)	-
Balance as at June 30, 2008	800,000	2,600,000	2,516	3,402,516
Surplus of income over expenditure for the year	-	-	(664,578)	(664,578)
Transfer to assets (land and building) acquisition reserve	-	-	-	-
Balance as at June 30, 2009	800,000	2,600,000	(662,062)	2,737,938

The annexed notes 1 to 26 form an integral part of these financial statements.

CHAIRMAN

COMMISSIONER

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SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

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 historical cost convention in accordance with the International Financial Reporting Standards (IFRS) issued by the International Federation of Accountants (IFAC). However, the Commission is not required to comply with the requirements of IFRS.

Preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Commission's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.15.

3. SUMMARY OF 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 and capital work in progress which are stated at cost.

Depreciation is calculated on a straight line method to write off the depreciable amount 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 upto 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 derecognized. Gains and losses on disposal of property, plant and equipment are included in the income currently.

3.2 Intangibles

Intangible assets are stated at cost less accumulated amortisation except for intangible assets under development which are stated at cost. Amortisation on intangible assets is calculated on a straight-line basis at rates specified in note 5 to the financial statements.

3.3 Taxation

Current

Provision for current taxation is based on taxable income at the current rate of tax after taking into account applicable tax credits, rebates and exemptions available, if any.

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Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all taxable temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantially enacted by the balance sheet date.

3.4 Receivables

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

3.5 Payables

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

3.6 Employee benefits

Defined contribution plan

The Commission maintains an approved defined Contributory Provident Fund for its employees eligible for this benefit plan as per policies of the Commission. The Commission's contribution to defined Contributory Provident Fund @10% of basic salary is charged to income and expenditure account for the year.

Defined benefit plans

The Commission operates following defined benefit plans for its eligible employees:

(i) Pension Fund

The Commission maintains approved funded defined pension plan for its employees eligible for this benefit plan as per policies of the Commission. Annual contributions are made to the Fund on actuarial recommendations using "Projected Unit Credit Method". The most recent actuarial valuation was conducted on June 30, 2009.

(ii) Gratuity Fund

The Commission maintains approved funded defined gratuity plan for its employees eligible for this benefit plan as per policies of the Commission. Annual contributions are made to the Fund on actuarial recommendations using "Projected Unit Credit Method". The most recent actuarial valuation was conducted on June 30, 2009.

The Commission's policy with regard to actuarial gains / losses is to follow a minimum recommended approach under International Accounting Standard: Employee benefits (IAS 19).

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 leave balance at the reporting date.

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3.7 Deferred grant

Grant related to fixed assets are deferred and are recognized as income over the period necessary to match them with the carrying value of the related assets.

3.8 Revenue recognition

Fees and other recoveries are recognized on accrual basis.

Penalties are recognized on receipt basis.

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

3.9 Administered projects

The Commission is the executing/ implementing agency under various donor assisted projects. Transactions and balances relating to these projects are reported under receivable against administered projects. The summary information is presented in note 8 to these financial statements. Fixed assets acquired under these projects have been capitalised to the extent these are transferable to the Commission and are subject to the policies adopted by the Commission for such items.

3.10 Impairment

The carrying amounts of the Commission's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss or reversal of impairment loss is recognized in the income and expenditure account.

3.11 Investments

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

Available-for-sale investments are measured at fair value.

3.12 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.

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3.13 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 or received. These financial assets and liabilities are subsequently measured at fair value and amortized cost as the case may be. The Commission derecognizes financial assets and liabilities when it ceases to be a party to such contractual provisions of the instruments.

3.14 Cash and cash equivalents

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

3.15 Use of critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Commission makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The material estimates and assumptions used to measure and classify the carrying amounts of assets and liabilities are outlined below:

(i) Useful lives of property, plant and equipment and intangibles (notes 4 and 5)
(ii) Provision for current and deferred taxation (note 20)

(b) Critical judgments in applying the entity's accounting policies

There have been no critical judgments made by the Commission's management in applying the accounting policies that would have a significant effect on the amounts recognised in the financial statements.

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4. PROPERTY, PLANT AND EQUIPMENT

Statement of property, plant and equipment is as follows:

	Leasehold land	Building	Leasehold improvement	Office equipment	Other equipment	Computers	Furniture and fixtures	Vehicles	Subtotal	Capital work-in-progress	Total
	Rupeess in thousand										
Cost	2,053	33,213	22,502	23,034	-	103,060	22,216	93,379	299,457	11,392	310,849
Accumulated depreciation	-	(11,616)	(15,014)	(18,001)	-	(60,950)	(13,195)	(20,226)	(139,002)	-	(139,002)
Net book value as at June 30, 2007	2,053	21,597	7,488	5,033	-	42,110	9,021	73,153	160,455	11,392	171,847
Additions during the year	-	761	450	6,508	7,830	16,890	1,104	60,398	93,941	9,517	103,458
Transfers	-	-	3,810	-	-	-	-	-	3,810	(3,810)	-
Disposals											
Cost	-	-	-	(128)	-	(34)	-	(9,855)	(10,017)	-	(10,017)
Depreciation	-	-	-	128	-	34	-	6,628	6,790	-	6,790
Net book value	-	-	-	-	-	-	-	(3,227)	(3,227)	-	(3,227)
Depreciation during the year	-	(1,682)	(2,374)	(3,817)	(998)	(25,148)	(2,281)	(23,247)	(59,547)	-	(59,547)
Net book value as June 30, 2008	2,053	20,676	9,374	7,724	6,832	33,852	7,844	107,077	195,432	17,099	212,531
Cost	2,053	33,974	26,762	29,414	7,830	119,916	23,320	143,922	387,191	17,099	404,290
Accumulated depreciation	-	(13,298)	(17,388)	(21,690)	(998)	(86,064)	(15,476)	(36,845)	(191,759)	-	(191,759)
Net book value as at June 30, 2008	2,053	20,676	9,374	7,724	6,832	33,852	7,844	107,077	195,432	17,099	212,531
Additions during the year	-	290	2,068	6,702	-	126,080	917	46,829	182,886	49,280	232,166
Transfers	-	-	20,152	-	-	-	-	-	20,152	(20,152)	-
Disposals											
Cost	-	-	-	(1,492)	-	(5,572)	-	(19,183)	(26,247)	-	(26,247)
Depreciation	-	-	-	1,017	-	5,542	-	6,577	13,136	-	13,136
Net book value	-	-	-	(475)	-	(30)	-	(12,606)	(13,111)	-	(13,111)
Depreciation during the year	-	(1,710)	(4,461)	(4,258)	(1,565)	(59,548)	(2,412)	(33,318)	(107,272)	-	(107,272)
Net book value as June 30, 2009	2,053	19,256	27,133	9,693	5,267	100,354	6,349	107,982	278,087	46,227	324,314
Cost	2,053	34,264	48,982	34,624	7,830	240,424	24,237	171,568	563,982	46,227	610,209
Accumulated depreciation	-	(15,008)	(21,849)	(24,931)	(2,563)	(140,070)	(17,888)	(63,586)	(285,895)	-	(285,895)
Net book value as at June 30, 2009	2,053	19,256	27,133	9,693	5,267	100,354	6,349	107,982	278,087	46,227	324,314
Depreciation rate (%) per annum	-	5%	20%	30%	20%	33.33%	10%	20%			

4.1 Cost of property, plant and equipment includes Rs. 15,800 thousand, Rs. 16,373 thousand, Rs. 61,199 thousand, Rs. 545 thousand and Rs. 5,250 thousand (2008 : Rs. 14,531 thousand, Rs. 17,657 thousand, Rs. 72,114 thousand, Rs. NIL and Rs. 6,227 thousand) respectively in respect of fully depreciated leasehold improvements, office equipment, computers, furniture and fixtures and vehicles that were still in use at the year end.

4.2 The break-up of capital work-in-progress is as follows:

	2009	2008
	Rupees in thousand	
Renovation of office premises	7,137	17,099
Advance against purchase of vehicles	17,635	-
Equipment for disaster recovery centre	21,455	-
	46,227	17,099

5. INTANGIBLES

	Computer Software	Software under development	Total
		Rupees in thousand	
Cost	6,035	11,050	17,085
Accumulated amortisation	(2,019)	-	(2,019)
Net book value as at June 30, 2007	4,016	11,050	15,066
Additions during the year	353	1,841	2,194
Transfers	8,291	(8,291)	-
Amortisation during the year	(2,407)	-	(2,407)
Net book value as June 30, 2008	10,253	4,600	14,853
Cost	14,679	4,600	19,279
Accumulated amortisation	(4,426)	-	(4,426)
Net book value as at June 30, 2008	10,253	4,600	14,853
Additions during the year	8,626	-	8,626
Transfers	4,600	(4,600)	-
Amortisation during the year	(6,736)	-	(6,736)
Net book value as June 30, 2009	16,743	-	16,743
Cost	27,905	-	27,905
Accumulated amortisation	(11,162)	-	(11,162)
Net book value as at June 30, 2009	16,743	-	16,743
Amortisation rate (%) per annum	33.33%		

6. LONG TERM INVESTMENTS

	Note	2009	2008
		Rupees in thousand	
Held to maturity			
Pakistan Investment Bonds	6.1	267,130	275,765
Regular Income Certificates	6.2	300,000	-
		567,130	275,765
Available for sale			
Investment in Pakistan Institute of Capital Markets	6.3	10,000	-
		577,130	275,765

6.1 Pakistan Investment Bonds

	2009	2008
Face value	235,000	235,000
Unamortized premium	32,130	40,765
	267,130	275,765

These represent investment in ten year Pakistan Investment Bonds (PIBs) having face value of Rs. 235 million. Profit is receivable semi-annually at the rates ranging between 9% to 12% per annum. Fair value of these PIBs at the year end was Rs. 227.987 million (2008 : Rs. 217.180 million).

6.2 Regular Income Certificates

These represent investment in Regular Income Certificates under National Savings Scheme.These carry mark up at the rate of 13.6% per annum and is receivable on monthly basis. These investments will mature in 2014.

6.3 Investment in Pakistan Institute of Capital Markets

The Commission is one of the subscribers of the Pakistan Institute of Capital Markets. This represents subcription of 2,000 shares @ Rs. 5,000 each.

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7. LONG TERM LOANS TO EMPLOYEES

	2009	2008
	Rupees in thousand	
Long term loans to employees - considered good	33,153	19,554
Less: current portion of long term loans	(6,495)	(6,801)
	26,658	12,753

These represent loans given to employees for various purposes as per their employment terms. These are secured against employees' retirement benefits and the respective assets acquired from the loan poceeds. These loans carry mark-up at 9% per annum except for loan for house repair and purchase of house, which carry mark-up at 4.5% per annum. Principal amount of loan is recoverable on monthly basis and mark-up is recoverable after complete recovery of the principal amount.

8. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2009	2008
	Rupees in thousand	
Current portion of long term loans to employees - considered good	6,495	6,801
Short term loans to employees - secured, considered good - note 8.1	9,614	8,688
Advances	1,415	15,598
Deposits	2,726	2,806
Prepayments	8,567	7,378
Advance tax - net	53,563	18,019
Fee receivable - considered good	3,145	14,953
Receivable against administered projects - considered good - note 8.2	4,402	11,154
Mark up receivable on long term investments	23,803	21,814
Mark up receivable on short term investments	129,646	47,773
Mark up receivable on loans to employees	1,240	486
Other receivables - considered good	3,394	103,650
	248,010	259,120

8.1 These represent interest-free house rent advance and miscellaneous loans given to employees recoverable/ adjustable on a monthly basis.

8.2 Receivable against administered projects - considered good

Transactions and balances against administered projects are as follows:

	Capacity Building (Asian Development Bank) note 8.2.1	Anti Money Laundering (World Bank) note 8.2.2	Capacity Building (World Bank) note 8.2.3	Total
	Rupees in thousand			
Expenditure in excess/ (short) of receipts at beginning of the year	995	7,454	2,705	11,154
Expenditure during the year	-	-	2,466	2,466
Receipts during the year	(233)	(3,026)	(5,197)	(8,456)
Amount written off	(762)	-	-	(762)
Expenditure in excess/ (short) of receipts at end of the year	-	4,428	(26)	4,402

8.2.1 Capacity Building for Capital Market Development and Corporate Governance

Asian Development Bank (ADB) provided funding of US$ 635,000 (approximately equivalent to Rs. 43,180,000) for technical assistance and Government of Pakistan provided US$ 1.4 million (approximately equivalent to Rs. 95,200,000) for Capacity Building for Capital Market Development and Corporate Governance. Aggregate amounts of Rs. 96,552,720 had been expensed upto completion of the project on June 30, 2007.

8.2.2 Technical Assistance for Banking Sector reforms Project - Anti Money Laundering

The World Bank provided funding for technical assistance for banking sector reforms (TABS) project to the State Bank of Pakistan (SBP) under Development Credit Agreement. SBP is the executing agency for the said program and one of the components of the program, Anti Money Laundering/ Financial Fraud, has been assigned to the Commission. An amount of US$ 350,000 (approximately equivalent to Rs. 23,800,000) has been allocated for this component whereas a sum of Rs. 9,941,626 has been expensed upto June 30, 2008. The project commenced on July 11, 2002 and was completed in June 2009.

8.2.3 Capacity Building of the Commission

The World Bank provided funding under Institutional Development Fund to strengthen the Commission's abilities to build a facilitative and cohesive legal framework and develop independent and high quality professional service providers. In terms of the grant agreement, an amount of US $ 454,000 (approximately equivalent to Rs. 30,872,000) has been allocated to this project. In terms of the grant agreement, the Commission is required to contribute US $ 25,000 (approximately equivalent to Rs. 2,032,500) in cash and provide support, mainly in terms of office space, research support, key personnel and other logistic support to the project. A sum of Rs. 15,984,176 has been expensed upto 30 June 2009 including Rs 4,297,755 through a separate revolving fund assignment bank account. Balance in this assignment bank account as at June 30, 2009 was US $ 75,000. The project commenced on September 28, 2005 and is expected to be completed in September 2009.

9. SHORT TERM INVESTMENTS - AVAILABLE FOR SALE

These represent investment in special saving account under National Savings Scheme.These carry mark up at the rate of 13% to 14.4% per annum. Mark-up is receivable after every 6 months and in case mark-up is not withdrawn it automatically stands reinvested and the corresponding markup rate applied on principal for future periods is enhanced to reflect this reinvestment. Maturity period of this investment is three years.

Upto the previous year, these investments were classified as long term under 'held to maturity' category. During the year, the Commission changed its intention and encashed part of these investments for investing and operational reasons. Accordingly, these investments have been reclassified as 'Available for Sale'.

	2009	2008
	Rupees in thousand	
10. CASH AND BANK BALANCES		
Cash in hand	656	24
Cash at bank		
- current accounts	-	(15,480)
- savings accounts	18,938	77,948
	18,938	62,468
	19,594	62,492

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		2009	2008
		Rupees in thousand	
11. ACCRUED AND OTHER LIABILITIES			
Accrued expenses		59,939	32,191
Bonus payable		5,398	38,714
Accounts payable		8,279	13,791
Withholding tax payable		557	4,010
Payable to staff retirement funds	11.1	42,777	85,027
Unearned income	11.2	73,042	13,546
Fee refundable		-	3,500
Provident fund payable		33	5,298
Other liabilities		10,716	13,413
		200,741	209,490

11.1 Payable to staff retirement funds

	2009	2008
Pension fund	39,057	62,526
Gratuity fund	3,720	22,501
	42,777	85,027

11.1.1 *The amount recognised in balance sheet is as follows:*

	Pension fund		Gratuity fund	
	2009	2008	2009	2008
	Rupees in thousand			
Net present value of defined benefit obligation	190,390	231,831	133,817	91,305
Fair value of plan assets	(68,157)	(75,230)	(81,494)	(33,444)
Deficit in the fund	122,233	156,601	52,323	57,861
Net unrecognised actuarial losses	(83,176)	(94,075)	(48,603)	(35,360)
Net liability recognised in the balance sheet	39,057	62,526	3,720	22,501

11.1.2 *The amount charged to income is as follows:*

	Pension fund 2009	Pension fund 2008	Gratuity fund 2009	Gratuity fund 2008
Current service cost	10,990	10,089	23,222	17,564
Past service cost (for employees' opted out of the scheme)	-	47,863	-	-
Interest cost	31,931	21,315	10,044	6,846
Interest on transferable amount	(6,430)	(6,567)	-	-
Expected return on plan assets	(8,275)	(8,689)	(3,679)	(3,481)
Actuarial loss recognized	10,841	5,016	4,372	3,631
	39,057	69,027	33,959	24,560

	Pension fund		Gratuity fund	
	2009	2008	2009	2008
	Rupees in thousand			
11.1.3 *Return on plan assets*				
Actual return on plan assets	6,492	5,962	4,977	2,701

The expected return on plan assets is based on the market expectations and depend upon the asset portfolio of the Fund, at the beginning of the year.

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	Pension fund		Gratuity fund	
	2009	2008	2009	2008
	Rupees in thousand			
11.1.4 *Changes in present value of defined benefit obligation*				
Opening balance of the defined benefit obligation	231,831	147,480	91,305	70,145
Current service cost	10,990	10,089	23,222	17,564
Interest cost	25,501	14,748	10,044	6,846
Past service cost	-	47,863	-	-
Benefits paid	(85,311)	(10,164)	(9,409)	(7,843)
Amount received from Government of Pakistan	8,762	2,177	-	-
Actuarial (gain) /loss	(1,383)	19,638	18,655	4,593
Closing balance of the defined benefit obligation	190,390	231,831	133,817	91,305
11.1.5 *Changes in fair value of plan assets*				
Opening balance of fair value of plan assets	75,230	86,886	33,444	35,356
Expected return on plan assets	8,275	8,689	3,679	3,481
Contributions to the fund	62,526	10,669	52,739	4,416
Benefits paid	(85,311)	(10,164)	(9,409)	(7,843)
Amount received from Government of Pakistan	8,762	2,177	-	-
Actuarial gain / (loss)	(1,325)	(23,027)	1,041	(1,966)
Closing balance of fair value of plan assets	68,157	75,230	81,494	33,444

The Commission expects to contribute Rs 35,430 thousand and Rs 42,325 thousand to its defined benefit pension and gratuity plans respectively during the next financial year.

11.1.6 *Break-up of category of assets*

	Pension fund		Gratuity fund	
	2009	2008	2009	2008
	Rupees in thousand			
Pakistan Investment Bonds	25,851	31,706	6,514	6,858
Special Savings Certificates	41,891		47,403	
Treasury Bills	-	38,886	-	25,661
Bank accounts	415	4,638	27,577	925
	68,157	75,230	81,494	33,444

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11.1.7 *Principal actuarial assumptions*

Actuarial valuation is carried out annually. Latest actuarial valuation was carried out as at June 30, 2009 using Projected Unit Credit Method. Significant actuarial assumptions used are as follows:

	Pension fund		Gratuity fund	
	2009	2008	2009	2008
Valuation discount rate - per annum	13%	11%	13%	11%
Salary increase rate - per annum	13%	11%	13%	11%
Expected return on plan assets - per annum	13%	11%	13%	11%

11.1.8 *Disclosure for current and previous four annual periods for pension and gratuity plans*

	2009	2008	2007	2006	2005
	Rupees in thousand				
Present value of the defined benefit obligations	324,207	323,136	217,625	149,821	117,905
Fair value of plan assets	(144,707)	(108,674)	(122,242)	(85,913)	(85,537)
Deficit in the plans	179,500	214,462	95,383	63,908	32,368
Experience adjustments on plan liabilitie	17,272	24,231	44,814		
Experience adjustments on plan assets	(284)	(24,993)	(6,037)		

11.2 Unearned income

This represents amount received in advance from companies for various transactions under the Companies Ordinance,1984.

	2009	2008
	Rupees in thousand	

12. DEFERRED TAXATION

The net balance of deferred taxation is in respect of the following temporary differences:		
- Accelerated depreciation and amortisation	7,628	(1,476)
- Profit on short term investments accrued not received	(24,208)	-
	(16,580)	(1,476)

13. DEFERRED LIABILITY

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

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14. DEFERRED GRANT

	2009	2008
	Rupees in thousand	
Opening balance	1,936	2,211
Less: Amortisation for the year	271	275
	1,665	1,936

This represents grant related to assets received from dissolved Corporate Law Authority, re-appropriation of funds by Government of Pakistan and technical assistance from Asian Development Bank. The deferred grant is amortised to the extent of the depreciation for the year on related assets.

15. CONTINGENCIES AND COMMITMENTS

15.1 Contingencies

(i) With reference to Section 3 of the Competition Commission (Collection of Fees and Charges) Rules 2009, the Federal Government of Pakistan through SRO 1291(I)2008 dated December 24, 2008, has prescribed a charge of 3% on the fees and charges levied by certain regulatory authorities including SECP effective financial year 2008-09, payable to the Competition Commission of Pakistan. SECP is contesting the above mentioned levy through arbitration with the Federal Government.

(ii) Additional tax demand amounting to Rs. 1.482 million raised by taxation officer on account of late payment of advance tax for the first and second quarter of tax year 2008. The Commission has disputed this demand and believes that this would not materialize.

(iii) Certain parties filed suits against the Commission in respect of claims for damages. These include claims of Rs. 2,000 million, Rs. 206 million, Rs. 100 million and Rs. 1,000 million filed by Investec Securities, Al Mal Securities, Biznas.Com Pakistan (Pvt) Limited, and Nadeem Ahmed Khan respectively. Based on legal advise, the Commission is confident of a favourable outcome of these cases and that there will be no financial impact of these cases.

(iv) Further, the Commission has been made party in various legal cases. The Commission believes that the outcome of these cases would not result in any financial exposure to the Commission.

15.2 Commitments

Aggregate commitments for contracted capital expenditure at end of the year amounted to Rs. 7.068 million. (2008: Rs. 59.416 million).

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	2009	2008
	Rupees in thousand	
16. FEES AND OTHER RECOVERIES		
Fees under the Companies Ordinance, 1984	507,127	840,829
Fees under the Modaraba Ordinance, 1980	2,335	5,270
Fees under the Insurance Ordinance, 2000	68,559	59,689
Fees on transactions executed at stock exchanges and other fees	104,937	289,379
Brokers' registration fees	3,187	4,431
Fee from Non Banking Finance Companies	387,790	239,428
	1,073,935	1,439,026
17. OTHER INCOME		
Income on bank deposits	4,062	3,965
Income on investments	354,374	239,963
Interest on loans to employees	1,050	595
Gain on sale of property, plant and equipment	787	3,374
Miscellaneous	548	378
	360,821	248,275
18. SALARIES, ALLOWANCES AND OTHER BENEFITS		
Salaries	223,770	193,380
House rent allowance	133,048	114,383
Medical allowance	29,534	25,223
Conveyance allowance	8,885	9,828
Utilities	22,132	19,028
Other allowance	105,755	56,100
Pension	39,057	69,027
Provident fund contribution	17,574	14,296
Gratuity	33,959	24,560
Leave encashment and allowance	34,296	16,278
	648,010	542,103
19. OPERATING EXPENSES		
Repairs and maintenance	65,849	28,288
Travelling and conveyance	56,051	53,602
Telephone, postage and courier	32,434	27,532
Utilities	16,065	10,022
Rent and rates	56,044	49,224
Printing and stationery	26,351	21,444
Legal and professional charges	32,351	17,866
Fees and subscription	4,885	3,648
Human resource development	15,585	16,888
Seminars and conference	377	971
Inspection cost	1,050	5,416
Insurance	6,350	4,736
Advertisement	15,410	10,687
Entertainment	876	769
Audit fee	210	200
Receivable against administered projects written off	762	-
Others	10,512	4,606
	341,162	255,899

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	2009	2008
	Rupees in thousand	
20. TAXATION		
Current tax		
- current year	72,695	284,920
- prior years	(14,305)	-
	58,390	284,920
Deferred tax		
- current year	39,322	1,476
- prior years	(24,217)	-
	15,105	1,476
	73,495	286,396

The relationship between the tax expense and accounting surplus income for the year ended June 30, 2009 is as follows:

	2009	2008
	Rupees in thousand	
Surplus of income over expenditure	320,049	818,275
Applicable tax @ 35%	112,017	286,396
Tax expense for the year	112,017	286,396

21. PROVISION FOR PRIOR YEARS' TAXATION

Provision for income tax amounting to Rs. 911.132 million has been accounted for in these financial statements in respect of income tax for prior years from 2002-03 to 2006-07 including additional tax of Rs. 18.530 million.

The Commission did not account for provision for income tax upto June 30, 2007 on the contention that the Commission has been brought under tax net effective July 1, 2007 consequent to the insertion of sub-section (4) to section 49 of the Income tax Ordinance, 2001 through Finance Act, 2007 considering its prospective applicability.

The above contention of the Commission has, however, not been accepted by the taxation authorities. The Commission was issued notices for filing of returns of total income for the years ended June 30, 2003 to June 30, 2007 which were contested through a writ petition in Islamabad High Court (IHC) based on the understanding that application of sub-section (4) of section 49 of the Ordinance is prospective having been inserted through Finance Act, 2007 and accordingly income of the Commission is exempt from tax prior to the said insertion. The IHC directed the Commission to file returns of total income and contest its claim of exemption from income tax through income tax appellate forums, in case the claim is refuted by the tax department. The returns filed, claiming exemption from income tax, were amended by the tax authorities whereby net tax demand of Rs. 880.637 million has been raised. The Commission has filed appeals against these orders with the Commissioner of Income Tax (CIT) - Appeals which are currently pending adjudication.

Subsequently, in another similar case related to another regulatory authority, Pakistan Telecommunication Authority (PTA), the Islamabad High Court has given a judgement in favour of the tax department. It is expected that the above referred judgement of the High Court will be followed by the CIT - Appeals while adjudicating the Commission's appeal, particularly as it favours the tax authorities. The Commission recognises that a judgement favouring the tax authorities is in the field and accordingly, provision for prior years' taxation has been made in the accounts without compromising the Commission's right to challenge it in appropriate proceedings.

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22. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

22.1 Interest rate risk exposure

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

	Interest bearing		Non interest bearing	Total
	Due within one year	Due after one year		
June 30, 2009				
Financial assets				
Long term investments	-	567,130	10,000	577,130
Long term loans to employees	-	14,273	12,385	26,658
Advances and other receivables	2,002	-	236,026	238,028
Short term investments	2,675,769	-	-	2,675,769
Cash and bank balances	18,938	-	656	19,594
Total	2,696,709	581,403	259,067	3,537,179
Financial liabilities				
Accrued and other liabilities	-	-	127,699	127,699
Total	-	-	127,699	127,699
Excess of financial assets over financial liabilities	2,696,709	581,403	131,368	3,409,480
June 30, 2008				
Financial assets	81,234	3,086,060	219,505	3,386,799
Financial liabilities	-	-	195,944	195,944
Excess of financial assets over financial liabilities	81,234	3,086,060	23,561	3,190,855

22.2 Credit risk

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

22.3 Foreign exchange risk management

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

22.4 Fair value of financial assets

The carrying amount of all financial instruments reflected in the financial statements approximate their fair value except for long-term investments as stated in note 6.

23. FUND MANAGEMENT

Policy board monitors the Commission's performance along with funds required for sustainable operations of the Commission. There were no changes to the Commission's approach to the fund management during the year. The Commission is not subject to externally imposed fund requirements.

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24. RELATED PARTY TRANSACTIONS

The Commission deals with several state-controlled entities, directly or indirectly controlled by the Government of Pakistan through its government authorities, agencies, affiliates and other organisations. Transactions with these state-controlled entities are not very significant.

In addition to above, key management personnel and employee benefit plans are related parties of the Commission. Transactions with key management personnel have been carried out in normal course of business in accordance with their employement terms. Transactions and balances relating to employee benefit plans have been disclosed in respective notes to the financial statements.

25. CORRESPONDING FIGURES

Corresponding figures have been re-arranged, where necessary, for the purpose of comparison.

26. AUTHORIZATION FOR ISSUE

These financial statements have been authorized for issue by the Commission on 11 SEP 2009.

CHAIRMAN

COMMISSIONER

Chapter 11

STATISTICAL SECTION

LIST OF TABLES

Total Number of Registered Companies:

Table 1: NUMBER & TYPE OF COMPANIES
(Registered under the Companies Ordinance,1984)

Type of Companies	Total companies as on 30.06.2008	Newly Incorporated Companies for the year ended on June 30, 2009
Companies limited by shares:		
Public listed (only those which are registered under the Ordinance)	616	
Public unlisted	2,168	46
Private	46,125	2,917
SMCs	775	127
Total companies limited by shares	**49,684**	**3,090**
Companies limited by guarantee u/s 43	64	4
Not-for-profit associations u/s 42	398	31
Trade Organizations	202	3
Foreign companies	725	53
Unlimited companies	3	
Companies under section 503 of the Ordinance	4	
Total Companies	**51,080**	**3,181**

Capitalization Breakdown:

Table 2

CAPITALIZATION BREAKDOWN AS ON 30-06-2009

Paid up Capital (Rs.)	Listed companies	Unlisted public companies	Private companies	SMC s	Total	% age
Upto 100,000	0	407	19113	520	20,040	38.66
100,001 to 500,000.	1	311	7126	120	7,558	14.58
500,001to 1,000,000	1	81	4744	99	4,925	9.50
1,000,001 to 10,000,000	23	337	13260	95	13,715	26.46
10,000,001 to 100,000,000	210	634	3366	44	4,254	8.21
100,000,001 to 500,000,000	232	286	490	2	1,010	1.95
500,000,001 to 1,000,000,000	61	50	36	0	147	0.28
1,000,000,001 to above	86	66	33	0	185	0.36

Sectoral Classification:

Table 3
SECTOR-WISE DISTRIBUTION (Limited by Shares)

Sectors	Total Companies
Auto & Allied	601
Broadcasting and Telecasting	263
Cable & Electrical Goods	571
Carpets and Rugs	81
Cement	105
Chemical	1416
Communications	2094
Construction	2256
Corporate Agricultural Farming	777
Education	438
Engineering	1661
Finance and Banking	1029
Food and Beverages	2077
Footware	58
Fuel and Energy	931
Ginning	340
Glass and Ceramics	299
Healthcare	386
Information Technology	1930
Insurance	323
Jute	20
Leather and Tanneries	405
Lodging	430
Mining and Quarrying	419
Paper and Board	978
Pharmaceutical	990
Power Generation	465
Real Estate Development	1097
Services	5620
Sport Goods	166
Steel and Allied	421
Sugar and Allied	161
Synthetic and Rayon	171
Textile	4604
Tobacco	86
Tourism	5304
Trading	5907
Transport	1028
Vanaspati and Allied	403
Wood and Wood Products	204
Miscellaneous	5319
Total	**51,834**

Associations not-for-profit:

Table 4
ASSOCIATIONS NOT-FOR-PROFIT

Object	No of Associations
Commerce	225
Art	6
Science	12
Religion	9
Sports	26
Social Services	200
Charity	58
Others	161
Total	**697**

Foreign Companies:

Table 5
FOREIGN COMPANIES

Country	Number of Companies
USA	145
UK	112
France	23
Germany	23
China	29
Japan	36
Australia	18
Middle East Countries	70
Far Eastern Countries	107
Other European Countries	101
Other Asian Countries	19
Other Countries	86
Total	**769**

Newly Registered Companies:

Table 6
NEWLY REGISTERED COMPANIES

Type of Companies	FY 2007-08	FY 2008-09
Companies limited by shares:		
Public unlisted companies	84	46
Private	4,438	2,917
SMCs	168	127
Total companies limited by shares	**4,690**	**3,090**
Associations not-for-profit u/s 42	42	31
Companies limited by guarantee u/s 43	1	4
Trade Organizations	0	3
Foreign companies	48	53
Total Newly Registered Companies	**4,781**	**3,181**

Approvals and Permissions:-

Table 7
LIST OF CASES APPROVED UNDER THE ORDINANCE AND RULES AND REGULATIONS MADE THERE-UNDER

Sr. #	Relevant Section of the Ordinance.	Nature of Approval/Permission Sought	Cases Disposed (No.)
1	Section 21	Amendment in memorandum and articles of association	188
2	Section 24(3)	Extension in time for filing the documents on confirmation of alteration	4
3	Section 37	Availability of name	10,545
4	Section 39	Change of name	166
5	Section 44	Conversion of public companies into private companies	3
6	Section 86	Further issue of capital	
7	Sections 121,129,132, 131	Registration, modification, satisfaction of charge and Condonation of delay in submission of particulars of charge	6,578
8	Section 146	Commencement of business certificate	31
9	Sections 158	Extension in period for holding of AGM s by non-listed public and private companies	137
10	Section 159(7)	Holding of an EOGM at a shorter notice	11
11	Section170	Calling of overdue meetings	5
12	Section 195	Grant of loans to directors of non-listed public companies	2
13	Section 233	Preparation of first accounts exceeding 12 months	1
14	Section 234 (5)	Exemption from disclosure requirements	1
15	Section 237	Exemption for Consolidation of Accounts	5

16	Section 252	Appointment of Auditors	6
17	Section 258	Approval of appointment of cost auditor	46
18	Section 439(9)	Restoration of name of company to the register of companies	2
19	Section 466(6)	Issue of certified copies of documents	38,309
20	Regulation 18 of the Companies (Registration Offices) Regulations, 2003.	Inspection of records maintained with CROs	15,304
21		Miscellaneous (minor activities, providing information to different agencies and shareholders, etc.)	2,020
22		**Total**	**73,364**

TABLE 8
Disposal of Complaints

Sr. No.	Nature of complaint	Received	Disposed	Pending
1	Non payment of dividend	5	2	3
2	Mismanagement of companies	15	14	1
3	Non receipt of balance sheets	2	2	0
4	Non receipt of notices	2	1	1
5	Non registration of transfer of shares	3	3	0
6	Non issue of share certificates	4	4	0
7	Improper holding of meetings	2	2	0
8	Non holding of AGM	0	0	0
9	Non receipt of dividend warrant	5	5	0
10	Misappropriation	1	0	1
11	Misapplication of funds	0	0	0
12	Improper election of directors	2	2	0
13	Miscellaneous	66	57	9
Total		**107**	**92**	**15**

Table 9
Disposal of Appeals

Sr. No	Relevant Section of the Ordinance	Nature of Appeal	Received	Disposed	Pending
1	Section 37	Appeal against refusal of company name	30	16	14
2	Section 78-A	Appeal against refusal for registration of transfer	3	0	3
3	Section 468	Appeal against refusal to accept any document	2	1	1
4	Section 477	Appeal and revision application against order passed under section 476 (1)	9	6	3
5	Section 484	Revision and Review of any order passed other than Section 476	1	0	1
	Total		**45**	**23**	**22**

Table 10: Licenses Renewed NBFC II

Name of NBFC	Nature of License
Atlas Asset Management Ltd.	Asset Management Services
AL Meezan Investment Management Ltd	Asset Management & Investment Advisory Services
ALFalah GHP Investment Management Ltd.	Asset Management & Investment Advisory Services
KASB Funds Limited	Asset Management & Investment Advisory Services
Askari Investment Management Ltd.	Asset Management & Investment Advisory Services
AMZ Asset Management Ltd.	Asset Management Services
AKD Investment Management Ltd.	Investment Advisory Services
Pak Oman Asset Management Company Ltd.	Asset Management & Investment Advisory Services
ABL Asset Management Co. Ltd.	Asset Management & Investment Advisory Services
Arif Habib Investments Ltd.	Asset Management & Investment Advisory Services
BMA Asset Management Company Ltd.	Asset Management Services
National Asset Management Co. Ltd.	Asset Management & Investment Advisory Services
Noman Abid Investment Management Ltd.	Asset Management Services
JS Investments Limited	Asset Management & Investment Advisory Services

MCB Asset Management Company Ltd.	Asset Management & Investment Advisory Services
UBL Fund Managers Limited	Asset Management & Investment Advisory Services
First Capital Investments Limited	Asset Management Services
National Fullerton Asset Management Ltd.	Asset Management & Investment Advisory Services
PICIC Asset Management Co. Limited	Asset Management & Investment Advisory Services
Faysal Asset Management Limited	Asset Management & Investment Advisory Services
Crosby Asset Management Limited	Asset Management & Investment Advisory Services
Habib Asset Management Limited	Asset Management Services
Magnus Investment Advisors Limited	Investment Advisory Services
Alliance Investment Management Ltd.	Investment Advisory Services
National Investment Trust Limited	Asset Management Services
Mashreq Asset Management Pakistan Ltd.	Asset Management Services
IGI Funds Limited	Asset Management & Investment Advisory Services

Table 11: Sector Brief for Investment Banks, leasing and Modarabas
As of June 30, 2009 (all figures in PKR millions)

Particulars	Investment Banks	Leasing Companies	Modarabas	Total
Total Assets	31,796	59,863	26,626	**118,285**
Total Equity	3,922	7,986	11,334	**23,242**
Total Net worth	3,129	7,672	11,706	**22,507**
Total Liabilities	28,666	52,191	14,905	**95,762**
Total Deposits	9,664	8,458	2,795	**20,917**
Sector Leveraging as Total Liabilities to Equity Ratio	6.77 Times	4.67 Times	1.12 Times	**3.29 Times**
Sector NPLs as % of Gross Total Assets	16	12	8	**12**
Sector NPLs as % of Gross Lending Portfolio	33	15	12	**18**

Table 12 : New Licenses issued in the area of Asset Management and Investment Advisory

Name of NBFC	Nature of License
Lakson Investments Limited	Asset Management & Investment Advisory Services
Mashreq Asset Management Pakistan Limited	Asset Management Services
MCB Asset Management Company Ltd.	Investment Advisory Services

Table 13: Mutual Funds data June 2009

S#	Nature of Mutual Funds	Closed End Funds		Open End Funds		Grand Total		% of Total Assets
		No.	Total Assets (PKR million)	No.	Total Assets (PKR million)	No.	Total Assets (PKR million)	
1	Asset Alloc.	1	2,165.02	9	4,473.01	10	6,638.03	2.9%
2	Balanced	1	730.47	4	6,009.26	5	6,739.73	3.0%
3	Capital Prot.	2	1,344.75	6	6,837.84	8	8,182.59	3.6%
4	Equity	11	20,015.16	13	77,702.69	24	97,717.85	43.1%
5	Fund of Funds	1	285.17	1	718.92	2	1,004.08	0.4%
6	Income	-	-	26	72,129.18	26	72,129.18	31.8%
7	Index	-	-	4	2,303.12	4	2,303.12	1.0%
8	Islamic	2	2,346.36	13	15,066.71	15	17,413.07	7.7%
9	Money Market	-	-	5	12,891.84	5	12,891.84	5.7%
10	Sector	2	1,962.55	-	-	2	1,962.55	0.9%
TOTAL		**20**	**28,849.46**	**81**	**198,132.57**	**101**	**226,982.03**	**100.0%**

Non-Banking Finance Companies (NBFCs) and Modarabas

The existing regulatory framework for NBFC sector has been divided into two clusters. Any NBFC falling in a particular cluster may undertake any form of business of that particular cluster but not allowed to have any business for following under the other cluster simultaneously.

Forms of business permissible to the cluster one and two are given below:

Cluster One:

- Investment Finance Services
- Leasing
- Housing Finance Services

Cluster Two:

- Asset Management Services
- Investment Advisory Services
- Venture Capital Investment

TABLE – 14 Investment Finance, Leasing and Housing Finance Service

S.No.	Name of NBFC	Nature of Business		
		Investment Finance Services	Leasing	Housing Finance Services
1	Al-Zamin Leasing Limited	√	√	
02	Asian Housing Finance			√
03	Askari Leasing Limited		√	
04	Escorts Investment Bank	√		
05	First Credit & Invest. Bank	√		
06	First Dawood Investment Bank	√	√	
07	Grays Leasing Limited		√	
08	IGI Investment Bank Limited	√	√	
09	Innovative Investment Bank Ltd.	√	√	√
10	Invest Capital Investment Bank	√		
11	J.S. Investments Limited	√		
12	NBP Leasing Limited		√	
13	Orix Investment Bank Ltd.	√		
14	Orix Leasing Pakistan Ltd.		√	
15	Pak Gulf Leasing Co. Ltd.		√	
16	Saudi Pak Leasing Co. Ltd.		√	
17	Security Investment Bank Ltd.	√		
18	Security Leasing Corp. Ltd.		√	
19	Sigma Leasing Co. Ltd.		√	
20	SME Leasing Limited		√	
21	Standard Chartered Leasing		√	
22	Trust Investment Bank Limited	√	√	
	Total	11	15	2

NBFC – I (Investment Banking Services, Leasing and Housing Finance)

There are 34 NBFCs under the regulatory ambit of NBFC-1. The number of licensed entities among these 34 NBFCs is 22. The remaining 12 entities do not possess a valid license as they are either non-compliant with the licensing requirements, financially sick or are under winding-up/ liquidation. The detail of licensed NBFCs is as follows:

NBFCs	Licensed	Dormant	Total
Investment Banks	10	03	13
Leasing Companies	11	08	19
Housing Finance Companies	01	01	02
Total	**22**	**12**	**34**

Table 15 – Break up of total assets of Pension Funds in to Sub-Funds as on 30-06-2009

|- - - - - - - - - - - - - (rupees) - - - - - - - - - - - - - - |

Particulars	Equity Sub-Fund	Debt Sub-Fund	Money Market Sub-Fund	Total
Total Assets	259,975,990	332,615,414	289,115,704	881,707,108
Total liabilities	6,495,077	3,763,955	1,783,154	12,042,186
Net Assets:	266,471,067	336,379,369	290,898,858	869,664,922

Break up of total assets of Pension Funds in to Sub-Funds as on 30-06-2009

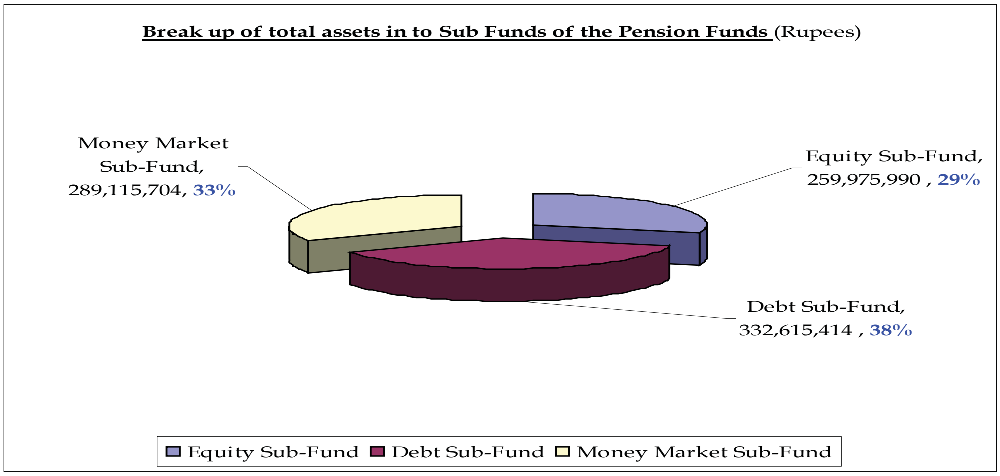

Table 16 – Comparative Position of total assets of Pension Funds as on 30-06-2009

S. No	Pension Fund	Equity Sub Fund	Debt Sub Fund	Money Market Sub Fund	Total Assets	Percent
1	Meezan Tahaffuz Pension Fund	59,513,810	69,295,440	62,176,007	90,985,256	22%
2	Pakistan Pension Fund	39,425,074	47,345,751	37,847,024	124,617,849	14%
3	Pakistan Islamic Pension Fund	23,222,075	34,933,786	33,320,883	91,476,744	10%
4	Atlas Pension Fund	37,400,358	52,155,738	42,779,602	132,335,698	15%
5	Atlas Pension Islamic Fund	50,985,513	57,760,450	45,356,885	154,102,848	17%
6	JS Pensions Savings Fund	19,588,205	37,604,521	35,353,991	92,546,716	10%
7	JS Islamic Pension Savings Fund	29,840,957	33,519,727	32,281,312	95,641,996	11%
		259,975,990	**332,615,414**	**9,115,704**	**881,707,108**	**100%**

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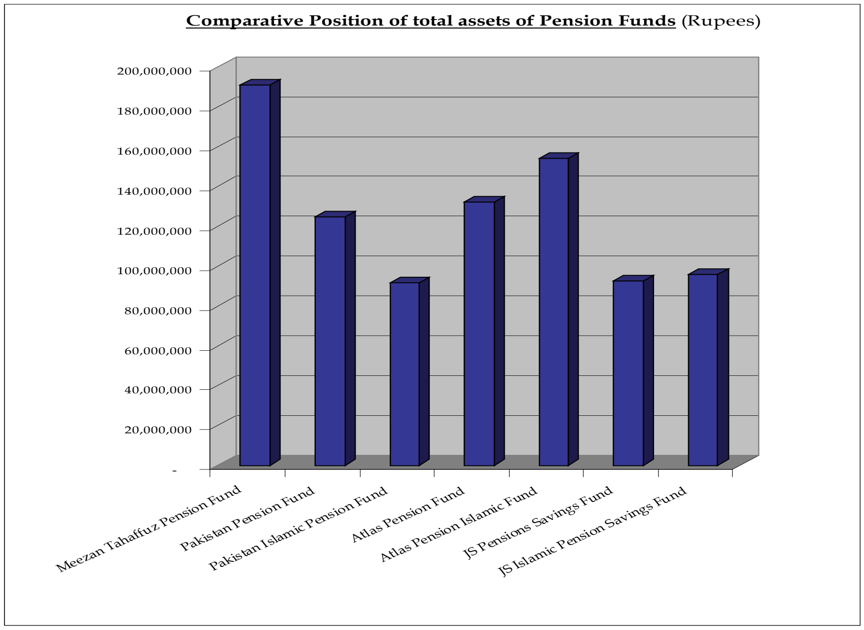
Comparative Position of total assets of Pension Funds as on 30-06-2009



Share of Sub-Funds in each Pension Fund as on 30-06-2009

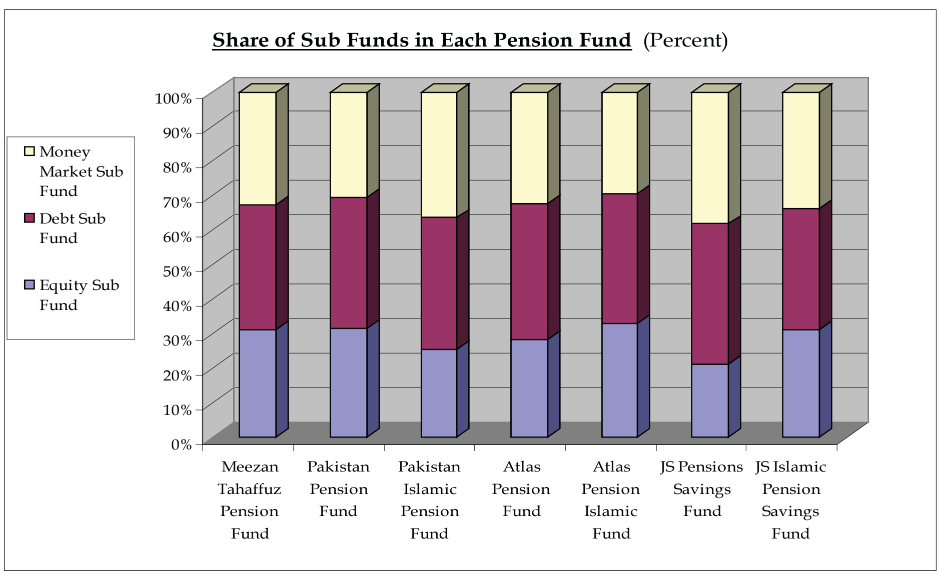


Table - 17– Asset mix of Pension Funds as on 30-06-2009

|------------- (rupees) --------------|

S No	Types of assets	Equity Sub-Fund	Debt Sub-Fund	Money Market Sub-Fund	Total	Percent
1	Government securities	-	119,095,183	94,449,664	213,544,847	24%
2	Equity Securities	236,555,529	-	-	236,555,529	27%
3	Debt Securities	-	80,409,621	4,268,300	84,677,921	10%
4	Bank Balances	18,899,577	123,221,369	184,479,215	326,600,161	37%
5	Accrued Income	527,683	6,545,802	4,721,255	11,794,740	1%
6	Other Recievables	2,719,019	387,253	252,508	3,358,780	0%
7	Other Assets	1,274,182	2,956,186	944,762	5,175,130	1%
	Total	**259,975,990**	**332,615,414**	**289,115,704**	**881,707,108**	**100%**

Asset mix of Pension Funds as on 30-06-2009

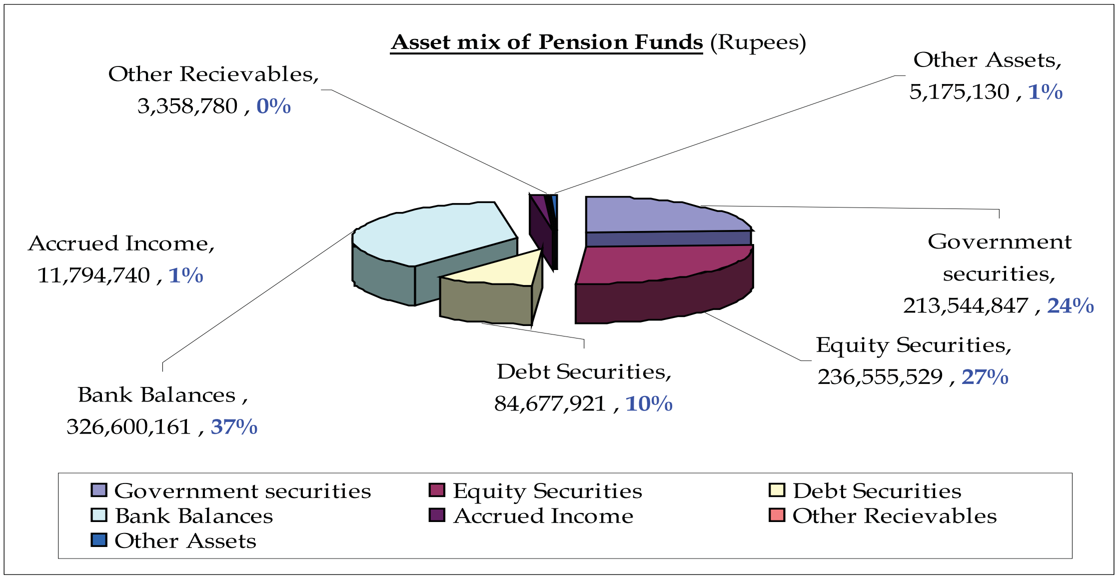


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Table 18 Comparison of total assets of Conventional Pension Funds and Sharia Compliant Pension Funds as on 30-06-2009

|- - - - - - - --- - - - - (rupees) - - - - - - - - - - - - -|

Sr. No.	Fund Nature	Equity Sub Fund	Debt Subt Fund	Money Market Sub Fund	Total Assets	Percent
1	Conventional Pension Funds	96,413,636	137,106,010	115,980,616	349,500,263	40%
2	Sharia Compliant Pension Funds	163,562,354	195,509,404	173,135,087	532,206,845	60%
	Total	**259,975,990**	**332,615,414**	**289,115,704**	**881,707,108**	**100%**

Comparison of total assets of Conventional Pension Funds and Sharia Compliant Pension Funds as on 30-06-2009

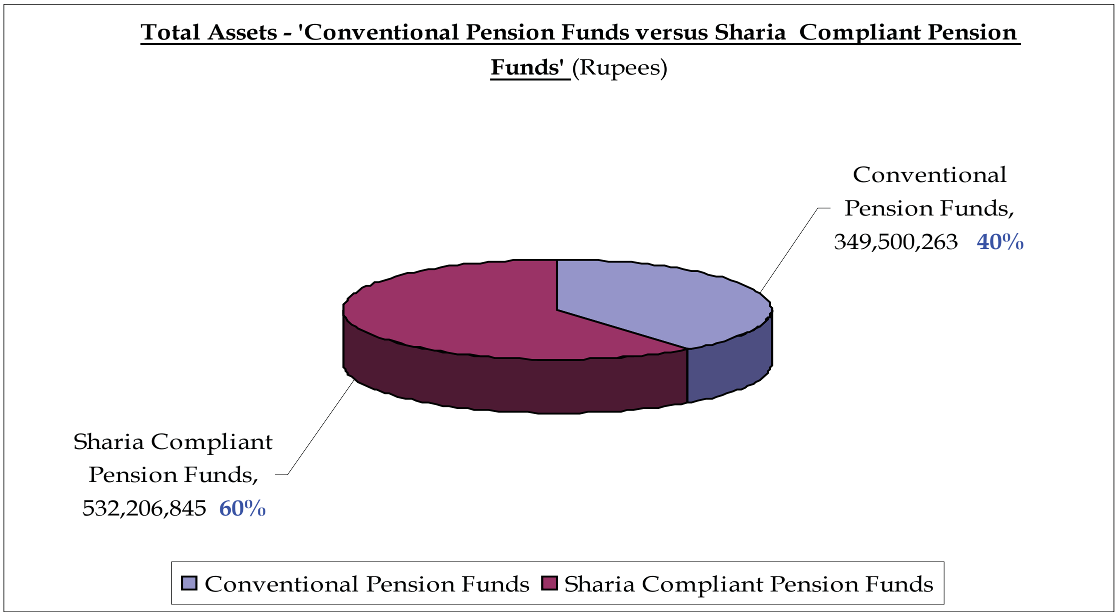


Table 19: Net Asset Value Per Unit and Total Assets of Pension Funds

S No.	Name of the Pension Fund Manager and Pension Fund		NAV per Unit	Total Assets
			(Rupees)	*(Rupees)*
1	**JS Investment Limited:**			
	1)	**JS Pension Savings Fund**		
		A) Equity Sub-Fund	61.57	19,541,340
		B) Debt Sub-Fund	122.94	37,350,266
		C) Money Market Sub-Fund	116.98	35,136,189
			Total	92,027,795

	2)	**JS Islamic Pension Saving Fund**		
		A) Equity Sub-Fund	90.84	27,419,100
		B) Debt Sub-Fund	111.68	33,758,142
		C) Money Market Sub-Fund	106.72	32,214,493
			Total	93,391,735
2	**Arif Habib Investments Limited**			
	1)	**Pakistan Pension Fund**		
		A) Equity Sub-Fund	63.04	42,463,341
		B) Debt Sub-Fund	110.90	48,737,054
		C) Money Market Sub-Fund	115.85	38,358,174
			Total	129,558,569
	2)	**Pakistan Islamic Pension Fund**		
		A) Equity Sub-Fund	73.01	23,568,848
		B) Debt Sub-Fund	111.77	35,548,261
		C) Money Market Sub-Fund	109.43	33,667,121
			Total	92,784,230
3	**Atlas Asset Management Limited**			
	1)	**Atlas Pension Fund**		
		A) Equity Sub-Fund	83.46	35,453,422
		B) Debt Sub-Fund	117.30	50,977,683
		C) Money Market Sub-Fund	117.91	43,048,802
			Total	129,479,907
	2)	**Atlas Pension Islamic Fund**		
		A) Equity Sub-Fund	97.00	50,006,122
		B) Debt Sub-Fund	116.13	55,800,672
		C) Money Market Sub-Fund	116.69	44,445,612
			Total	150,252,406
4	**Al Meezan Investments Limited**			
	1)	**Meezan Tahafuzz Pension Fund**		
		A) Equity Sub-Fund	76.71	61,523,817
		B) Debt Sub-Fund	119.58	70,443,336
		C) Money Market Sub-Fund	119.93	62,245,313
			Total	194,212,466
			Grand Total	**881,707,108**

Table 20- Public annoncements of intention/offer under Takeovers Ordinance during 2008-09

			Announcement of Intention		Number of shares to be acquirered under agreement		Public offer size	
S. #	Company	Status	Date	Acquirer	Shares	%age	Shares	%age
1	Pakistan PTA Limited	Public Annoucnement of intention	25-May-09	K. P Chemical Korea	1,135,806,239	75.01%	226,980,249	15.0%
2	Karim Cotton Limited	Public announcement of intention	28-May-09	Mr. Muhmmad Aslam Salat, Mr. Noor Muhammad, Mr. Faisal Aba Ali,Mr. Tausif Ilyas	331,332	28.00%	851,972	72.0%
3	Al-Asif Sugar Mills Limited	Takeover Complete	28-Nov-08	Haq Bahu Sugar Mills Limited	9,166,500	62.50%	4,033,260	27.5%
4	Bosicor Pakistan Limited	Public Annoucnement of intention	4-May-09	Byco Industries Ltd.	216,383,911	55.19%	136,510,046	34.8%
5	Royal Bank of Scotland	Public Annoucnement of intention	8-Jun-09		1,707,107,891	99.37%	10873500	0.63%
			15-Jun-09	MCB Bank Ltd.				
6	Capital Asset Leasing Corporation Ltd	Public annnouncement of intention	7-Dec-08	Optimus Limited	7,856,546	73.12%	1813246	16.88%
	Total				**3,076,652,419**		**381,062,273**	

2007-08

	Total				**973,998,670**		**100,601,991**	

Table 21: Gross Written Premium: (Rs. In Million)

Description	2005	2006	2007	2008
Life				
Public	13899	16077	18842	22826
Private	4653	6497	8851	12036
Sub-Total	**18552**	**22574**	**27693**	**34862**
Family Takaful				
Private	-	-	1	133
Sub-Total	**-**	**-**	**1**	**133**
Non-Life				
Public	4249	4453	4352	5492
Private	23241	28870	34002	36190
Sub-Total	**27491**	**33323**	**38354**	**41682**
General Takaful				
Private	5	129	329	697
Sub-Total	**5**	**129**	**329**	**697**
Grand Total	**46048**	**56026**	**66377**	**77374**
Growth in %		**21.67**	**18.48**	**16.57**

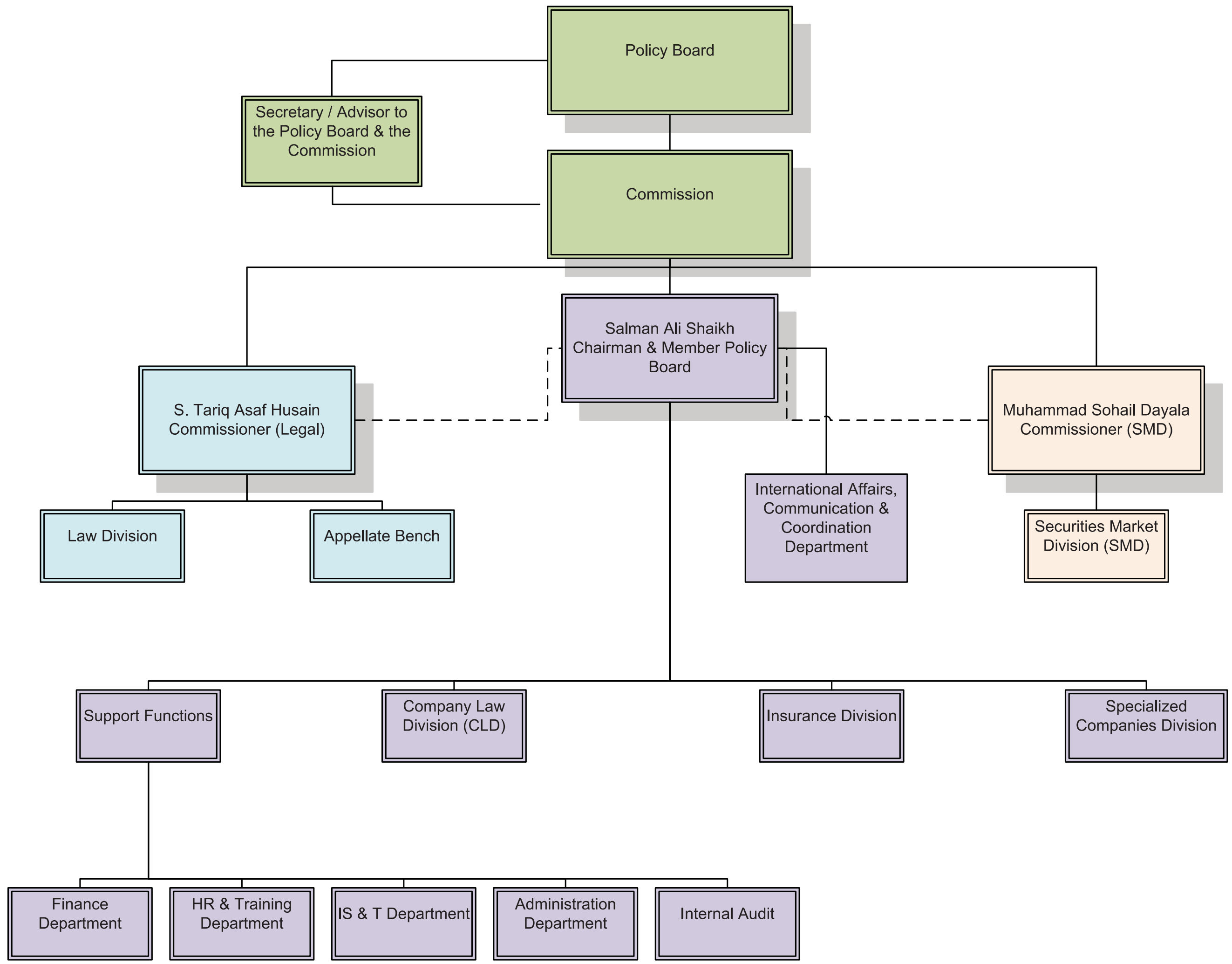
Table 22: Break up of Insurance Sector in Pakistan

Description	Number of Companies			
	Active	Ceased	Winding up	Total
Life				
Public	1	-	-	1
Private	6	-	-	6
Sub-Total	**7**	**-**	**-**	**7**
Family Takaful				
Private	2	-	-	2
Sub-Total	**2**	**-**	**-**	**2**
Non-Life				
Public	2	-	-	2
Private	30	12	12	54
Sub-Total	**32**	**12**	**12**	**56**
General Takaful				
Private	3	-	-	3
Sub-Total	**3**	**-**	**-**	**3**
Grand Total	**44**	**12**	**12**	**68**

Chapter 12

ANNEXURES

ANNEXURE A: Organizational Structure



ANNEXURE B

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

1) MOU with Securities & Exchange Board of India
2) MOU between SECP and Australian Securities and Investments Commission
3) MOU between South Asian Securities Regulators to which SECP is a signatory
4) MOU between SECP and IFC on Launching Corporate Governance Project
5) MOU between SECP and Maldives Monetary Authority
6) MOU between SECP and Securities and Exchange Commission of Sri Lanka
7) MOU between SECP and Royal Monetary Authority of Bhutan
8) MOU between SECP and State Bank of Pakistan

ANNEXURE C

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. Guidelines on making Alteration in Memorandum of Association under section 21 of Companies Ordinance, 1984
10. Insurance Guide
11. Investigation into the affairs of a company
12. Investors Guide (Vol.-I)
13. Investors Guide (Vol.-II)
14. Investor's Guide for Lodging Complaints
15. Licencing & Registration of Association Not-For-Profit
16. Modaraba Promoters' Guide
17. Promoters' Guide
18. Promoters' Guide (in Arabic)
19. Promoters' Guide (in Chinese)
20. Promoters' Guide (in Urdu)
21. Shareholders' Rights
22. Single Member Company Guide (in Urdu)
23. Winding up and Dissolution of Companies

ANNEXURE D

List of Model Memorandum of Association for Different Sectors

1. Auto and Allied
2. Association Not For Profit
3. Banking Company
4. Carpets And Rugs

5. Chemical and Pharmaceutical
6. Communication and IT Related
7. Construction
8. Engineering
9. Educational Institution
10. Exchange Company-A
11. Exchange Company-B
12. Fuel and Energy
13. Fertilizers
14. Fishing
15. Furniture
16. Food and Beverage
17. Hajj-Umrah Services
18. Health Care
19. Hotels
20. Insurance
21. Leather
22. Leasing
23. Textile
    (m1) Textile Composite
    (m2) Textile Spinning
    (m3) Textile Allied and Others
24. Transportation
25. Association/Foundation
26. Miscellaneous
27. Mining and Quarrying
28. Power Generation
29. Printing and Publishing
30. Security Services
31. Sports Good
32. Synthetics and Rayon
33. Sugar and Allied
34. Trading
35. TV Channels
36. Jute
37. Live Stock
38. Poultry & Breeding
39. Plastic Products
40. Venture Capital Business

Single Page Memorandum and Articles of Association

1. Memorandum of Association
2. Articles of Association

Articles of Association of a Private Limited Company

1. Articles of Association

ANNEXURE E

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#	Rules/Regulations/Guidelines
	2008
1	REIT Regulations 2008
2	Group Companies Registration Regulations, 2008
3	Non-Banking Finance Companies And Notified Entities Regulations, 2008
4	Private Equity & Venture Capital Fund Regulations, 2008 | Forms & Schedule
5	Listed Companies (Substantial Acquisition Of Voting Shares And Take-Overs) Regulations, 2008
	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 F: Management Directory

Head Office Islamabad

Name	Designation	Email Address	Telephone
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Chapter 13
ABBREVIATIONS AND ACRONYMS

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ACII: Associate from the Chartered Insurance Institute
ADB: Asian Development Bank
AGM: Annual General Meeting
AML: Anti-money Laundering
AMCs/IAs: Asset Management Company/Investment Advisors
AMLO: Anti-money Laundering Ordinance
APG: Asia/Pacific Group on Money Laundering
APREA: Asian Public Real Estate Association
ASOs: Authorized Surveying Officers
AWACs: Advance Warning and Control System
BDS: Board Development Series
BOD: Board of Directors
BPM: Business Process Management
CA: Chartered Accountant
CCG: Code of Corporate Governance
CDC: Central Depository Company of Pakistan Limited
CDD: Customer Due Diligence
CDS: Central Depository System
CEO: Chief Executive Officer
CEW: Commodity Exchange Wing
CFT: Combating Financial Terrorism
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
CPs: Commercial Papers
CRCs:Corporate Registration and Compliance System
CRO: Company Registration Office
CS: Chairman Secretariat
CRS: Companies Regularization Scheme
DOW: Directors Orientation Workshop
DFI: Development Finance Institution
ECO: Economic Corporation Organization
EGD: Electronic Government Directorate
EMC: Emerging Market Committee
EMC-WG3: Working Group-3 of Emerging Markets Committee
EMD: Enforcement and Monitoring Department
EnfD: Enforcement Department
EOGM: Extraordinary General Meetings
FATF: Financial Action Task Force
FBR: Federal Board of Revenue

FD: Finance Department
FIU: Fraud Investigation Unit
FMC: Fund Management Company
FMGP: Financial (non-bank) Markets and Governance Program
FMU: Financial Monitoring Unit
FRU: Foreign Relations Unit
FY: Financial Year
GDRs: Global Depository Receipts
HBFC: House Building Finance Corporation
HRIS: Human Resources Information System
HR&TD: Human Resource & Training Department
IA: Internal Audit Department
IACCD: International Affairs, Communication and Coordination Department
IAIS: International Association of Insurance Supervisors
IAIR: The International Association of Insolvency Regulators
IAP: Insurance Association of Pakistan
IAS: International Accounting Standard
IASB: International Accounting Standards Board
IBA: Institute of Business Administration
ICAP: Institute of Chartered Accountants of Pakistan
ICM: Institute of Capital Market's
ICMAP: Institute of Cost and Management Accountants of Pakistan
ICT: Islamabad Capital Territory
ICW: Investor's Complaints Wing
ID: Insurance Division
IDF: Institutional Development Fund
IIRS: Insurance Industry Regulatory System
IFC: International Finance Corporation
IFSCs: Islamic Financial Services (Non-Banking) Companies
IFIs: Islamic Financial Institutions
IFRIC: International Financial Reporting Interpretations Committee
IFRS: International Financial Reporting Standards
IFRS-4: International Financial Reporting Standard-4
IFSB: Islamic Financial Services Board
Insurance Ordinance: Insurance Ordinance, 2000
IOPS: International Organization of Pension Supervisors
IOSCO: International Organization of Securities Commissions
IPO: Initial Public Offering
IRC: Information Resource Centre
IS&T: Information Systems and Technology
ISE: Islamabad Stock Exchange
ISMS: Information Security Management System
ISO: International Organization of Standardization
IT: Information Technology
IVSC: International Valuation Standards Council
KASB: Khadim Ali Shah Bukhari
KSE: Karachi Stock Exchange
KSE-30 Index: Karachi Stock Exchange 30 Shares Index
KSE-100 Index: Karachi Stock Exchange 100 Shares Index
KYC: Know Your Customer

LAP: Leasing Association of Pakistan
LD: Law Division
LoU: Letter of Understanding
LSE: Lahore Stock Exchange
LUMS: Lahore University of Management Sciences
MAP: Modaraba Association of Pakistan
MIS: Management Information System
M&I: Monitoring and Inspection
MLM: Multi Level Marketing
MMC: Modaraba Management Company
MMoU: Multilateral Memorandum of Understanding
Modaraba Ordinance: Modaraba Companies & Modaraba (Floatation and ControlOrdinance), 1980
Modaraba Rules: Modaraba Companies and Modaraba Rules, 1981
MoU: Memorandum of Understanding
MSW: Monitoring and Surveillance Wing
MUFAP: Mutual Fund Association of Pakistan
N&ICAU: National and International Cooperation Affairs Unit
NAV: Net Asset Value
NBF: Non-Bank Financial
NBFC: Non-banking Finance Company
NBFCD: Non-banking Finance Companies Department
NBFC Rules: Non-banking Finance Companies (Establishment and Regulation) Rules, 2003
NBFI: Non-bank Financial Institution
NCCPL: National Clearing Company of Pakistan Limited
NCEL: National Commodity Exchange Limited
NEC: National Executive Committee
NICOP: National Identity Card for Overseas Pakistanis
NIT: National Investment Trust
NOC: No Objection Certificate
NTCs: New Terms & Conditions (of employment)
NWFP: North-West Frontier Province
OPAC: Online Public Access Catalog
OSS: Occupational Savings Schemes
OTC: Over-the-counter
PACRA: Pakistan Credit Rating Agency Limited
PBA: Pakistan Banks Associations
PE & VCF: Private Equity and Venture Capital Fund
Policy Board: Securities and Exchange Policy Board
PICG: Pakistan Institute of Corporate Governance
PM: Project Management
PRCL: Pakistan Reinsurance Company Limited
PSEB: Pakistan Software Export Board
PSOA: Pakistan Society of Actuaries
PSPD: Professional Services and Policy Division
QCR: Quality Control Review
QIBs: Qualified Institutional Buyers
RBS: Risk Based Supervision
RD: Registration Department
RMC: REIT Management Company
REIT: Real Estate Investment Trust

RTS: Resume Tracking System
SAFA: South Asian Federation of Accountants
SAOF: Sub-Account Opening Form
SBP: State Bank of Pakistan
SCD: Specialized Companies Division
SCRA: Specialized Companies Return Analysis
SCRS: Specialized Companies Return Submission System
SECP Act: Securities and Exchange Commission of Pakistan Act, 1997
Sis: Sophisticated Investors
SLIC: State Life Insurance Corporation
SMC: Single Member Company
SMD: Securities Market Division
SME: Small and Medium Enterprise
SMEDA: Small and Medium Enterprises Development Authority
SOE: State-owned Enterprise
SPVs: Special Purpose Vehicle
SRO: Self-regulatory Organization
TA: Technical Assistance
TABS: TA for Banking Sector Reforms
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
UIN: Unique Identification Number
UK: United Kingdom
VaR: Value at Risk
VPS: Voluntary Pension System
VPS Rules: Voluntary Pension System Rules, 2005