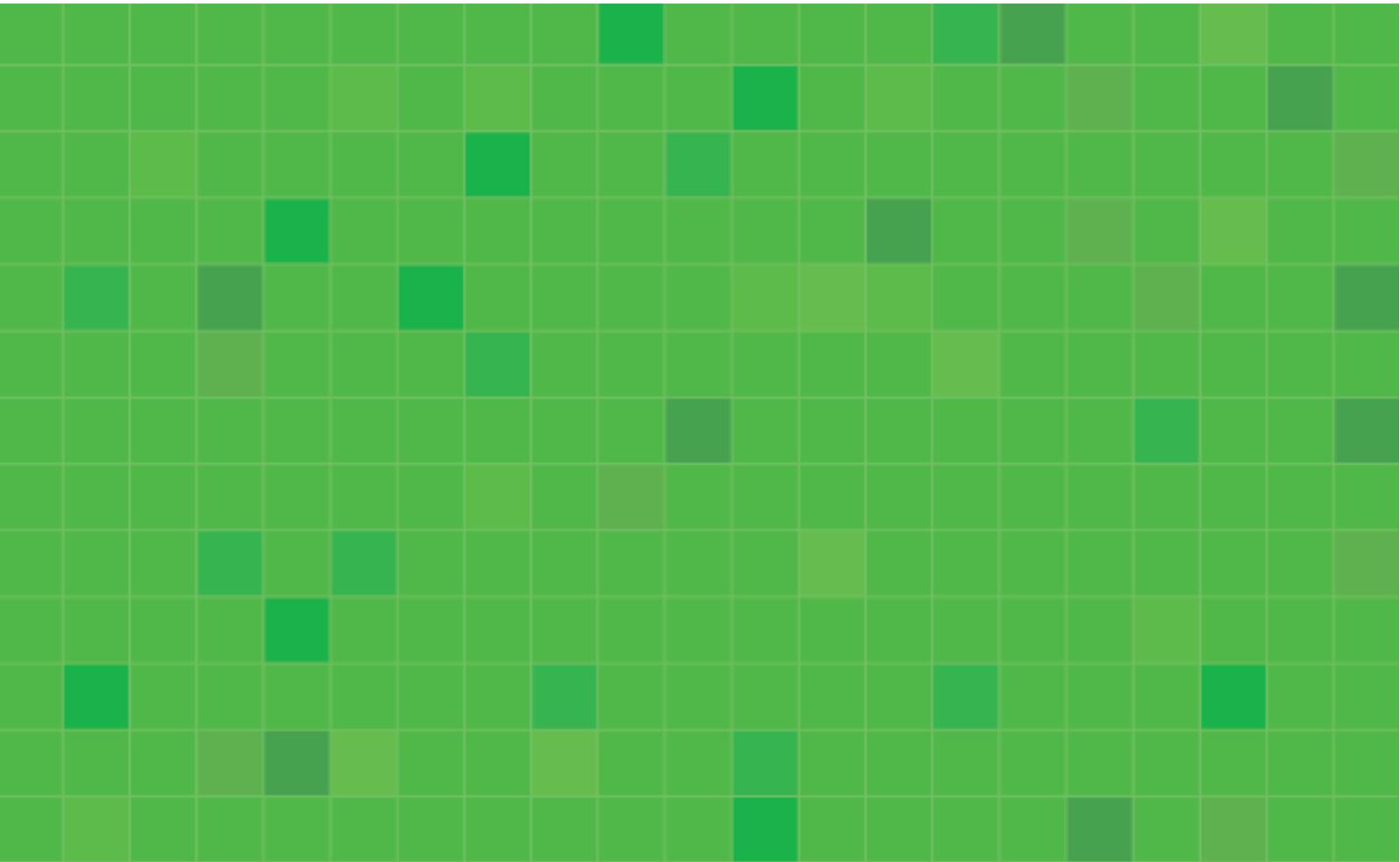




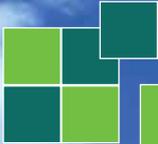
Annual Report 2013



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ





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.



This report has been prepared in pursuance of section 25 of the 1997 Securities and Exchange Commission of Pakistan Act for the purpose of reporting the activities and performance of the Securities and Exchange Commission of Pakistan from July 1, 2012 to June 30, 2013.



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Tahir Mahmood
The Chairman



Chairman's message

As we welcome the FY2014, we look at the achievements during the year ending June 30, 2013, with a sense of pride. The Securities and Exchange Commission of Pakistan (SECP) has achieved a number of significant milestones through outstanding dedication and commitment of our key stakeholders. Their cooperation and efforts have helped the SECP become a leading regulator in Pakistan. This year we aspire to become a role model of efficiency and excellence among the entire emerging markets' regulators of capital markets, insurance and corporate sectors.

The improved performance of the SECP over the past few years has been the result of strategic initiatives that are now bearing fruit, including a leaner management structure, more streamlined processes, increased use of information technology, and enhanced market intelligence capabilities. During the FY2013, stakeholders continued to witness performance gains stemming from improvements in the SECP's internal management; the results of this ongoing, strategic effort to streamline and modernize can be seen across the SECP, in the shape of new regulatory initiatives, increased enforcement actions and a booming stock market.

As Pakistan envisages becoming a strategically important economic center in the region, the SECP recognizes the significance of vibrant and efficient capital markets and supports the national growth agenda. The SECP thinks that an enabling and conducive environment with ample access to opportunities, both for issuers and investors, is imperative for the integrity and development of the capital markets.

At the outset of the FY2013, the SECP faced numerous challenges, such as low market turnover, a lack of investor interest and the requisite revamp of the laws to address the ever evolving nature of the marketplace. It was against this backdrop that the SECP relentlessly pursued its agenda by framing new rules and regulations, amending the existing ones, strengthening enforcement of the sectors within its ambit to effectively protect the investors' interests and ultimately regaining the confidence of both existing and potential investors.

At the SECP, we recognize that all stakeholders must be given the opportunity to contribute to the development of the capital markets, corporate and insurance sectors. We value the active participation of the industry in its efforts to develop the capital market, and have greatly benefited from the industry's feedback and contributions on numerous initiatives.

We, therefore, encourage all stakeholders to participate more actively by providing feedback through the SECP's consultative process and we look forward to working even more closely and building on our existing linkages. This will enable us to leverage the wealth of our collective experience in pursuit of common goals for the capital market and corporate sector.

Capital market reforms

Our development agenda was primarily driven by placing full emphasis on promoting sustainable and comprehensive growth of the capital market while maintaining our commitment to implementing a robust regulatory regime. Committed to broadening access to the capital market, we introduced new reforms in the following categories:

- Equity market:** In order to create a more vibrant and robust stock exchange and to broaden the investor base some key measures such as the launch of an exchange-traded funds (ETF) at the Islamabad Stock Exchange and 're-introduction of odd-lot market' to facilitate investors who hold thinly traded securities and fractional shares were introduced. One of the biggest achievements of this year was the promulgation of the 2012 Stock Exchanges (Corporatization, Demutualization and Integration) Act aimed at striking a balance in the interests of different stakeholders in the corporate and governance structure of the stock exchanges.
- Debt market:** During the year under review, significant steps were taken towards broadening access and creating investment opportunities in the bond markets for retail investors; the idea was to extend the pool of potential investors beyond the wholesale market. In order to develop the debt capital market, the SECP introduced the Registration of Debt Securities Trustees to facilitate auto settlement of trades in debt securities. Fifteen companies/banks were registered to act as debt securities trustees and for the settlement of trading in debt securities listed at the over-the-counter segment of the stock exchanges.
- Islamic capital market:** We took a number of measures to build a domestic Sharia-compliant equity and investment management segment. To this end, we have developed the guidelines on sukuk and established the Sharia Advisory Board aimed at introducing Sharia-compliant products in line with best international practices; we believe that these efforts will



contribute significantly to tap the potential of Islamic non-banking financial services industry in Pakistan.

- **Commodity market:** The commodity futures markets play a pivotal role in reducing price volatility, assisting price discovery and bringing greater balance in the supply and demand of commodities in the economy. To further develop the commodity market, new commodity futures contracts for cotton (cash-settled) and silver (10 ounces) were introduced at the PMEX.
- **Non-banking finance sector:** A strong NBF sector decreases systemic risk by reducing dependence on the banking sector by providing alternative fundraising opportunities to the participants of financial system. To ensure development of the NBF sector, the SECP constituted the NBFC Reform Committee, comprising of leading market professionals to undertake in-depth review of the prevalent regime for this sector holistically and to suggest a way forward. The committee after comprehensive review of different aspects of industry and taking into account the global best practices, suggested measures for sustainable growth of the entire non-banking finance sector.

Besides the specific recommendations of the committee for the AMC, REIT, and modaraba sectors, major recommendations include exploring the possibility of implementing activity-based regulatory regime, introducing non-deposit taking NBFCs regime, introducing capital adequacy ratio, linking deposit raising and non-fund-based liabilities with credit rating, capping aggregate liabilities and revising the exposure limits, etc. The SECP has initiated the process of consultation with stakeholders on these recommendations and after analyzing the feedback received appropriate amendments will be made to the legal and regulatory framework.

Insurance sector reforms

In order to increase the penetration of insurance in Pakistan, the SECP—in collaboration with the World Bank and the FIRST Initiative—prepared and published a diagnostic report on the state of microinsurance in Pakistan. It was launched in October 2012. Subsequently, a working group was formed which after extensive deliberations and consultations, came up with the draft rules for microinsurance that were published in June 2013 to seek public's feedback.

In addition, in order to develop crop and livestock insurance products in the country, the SECP is striving to develop comprehensive guidelines for the insurance industry enabling it to develop the product and meet the demand in the market. The task force formed by the SBP for the development of a Livestock Loan Insurance Scheme (LLIS), of which the SECP is an active member heading the subgroup on Insurance, has shared the final developed product with the stakeholders for the rollout of the scheme, on a pilot basis. The development of a Centralized Information Sharing Solution for Life Insurance Industry (CISII) is a significant project for the insurance industry, which will provide information sharing mechanism to the life insurers so that they can make informed decisions. The overall objective of the CISII is to enhance the policyholders' protection and reduce systematic risk in the life insurance industry.

Corporate sector reforms

In FY2013—as a result of effective enforcement—the corporate sector, including unlisted companies progressively improved compliance with the statutory requirements. The quality of corporate disclosure, including financial reporting, has improved to a large extent. And the SECP continued its efforts to strengthen the audit framework by working with professional institutes, i.e. the ICAP and ICMAP. In this regard, the SECP—in collaboration with the ICAP—formed a joint committee to consider and deliberate on the concept of independent audit oversight board in order to enhance the quality of audit through effective functioning of the audit profession. Due consideration was also given to the best international practices regarding the functioning of audit oversight board. A subcommittee comprising of the ICAP, ICMAP and SECP representative was also formed for developing cost accounting and auditing framework. It is reviewing and drafting the said framework. The SECP is also working with the ICAP at the coordination committee level on areas of mutual interest specifically relating to improvements in existing accounting and reporting framework as well as on enhancement of audit quality. In order to give a fresh impetus to the existing level of cooperation, the SECP's representation on the ICAP Accounting Standards Committee and Quality Assurance Board has been ensured.

Moreover, in a move to encourage sustainable business practices, the SECP proposed draft Corporate Social Responsibility Voluntary Guidelines for public companies. These guidelines are aimed at providing a comprehensive framework that emphasizes on formation of governance policy,



broad indicators, implementation structure, periodic monitoring mechanism and relevant disclosures for the CSR activities.

In order to facilitate the entrepreneurs and ensure an expeditious service delivery in corporatization of businesses, the SECP has proposed implementation of a one-stop shop (OSS) for business registration. In the first phase, it has been planned to integrate company, tax and social security registrations through a web-portal. In this regard, the SECP joining hands with the Federal Board of Revenue (FBR), and Employees Old-Age Benefit Institution (EOBI) is implementing the OSS project supervised and coordinated by the Economic Reforms Unit (ERU), Ministry of Finance. The reform is strongly encouraged by the international financial institutions and is likely to further improve Pakistan's ranking in the World Bank business start-up indicators.

Supervision, monitoring and control

We believe that sound and effective regulations, aligning the interests of market participants, instill the confidence needed for the development of markets, and also maintain integrity and high standards within the sectors regulated by the SECP. We, therefore, have focused intensely on strengthening the regulatory and supervisory framework to ensure effective oversight of the capital markets, non-bank financial, insurance and the corporate sector.

As the year progressed, we continued to intensify our efforts to monitor, mitigate and manage risks within our regulated sectors with a particular emphasis on emerging systemic risk. Our approach to risk management is multi-pronged, taking into consideration potential risks arising both from within and outside the regulated sectors ensuring that preventative and corrective actions can be taken in a timely manner.

In addition to systemic risk, our efforts to maintain the integrity of markets also extended to market abuse and misconduct. A key pillar of our approach to market oversight is having a strong enforcement regime in place. In FY2013, we have taken many significant enforcement actions against market abuse and misconduct, utilizing the range of enforcement tools available to the SECP, which is reflected by the fact that this year the SECP initiated 777 enforcement actions as compared to 482 last year.

Lastly, in order for the capital markets to operate more efficiently and effectively, as well as to

strengthen the legal and regulatory framework for development of fair, orderly and transparent markets, the SECP has made a serious effort to speed up review and approval of the legislative bills which have been under consideration of the Parliament. After holding many rounds of discussions and negotiations with key stakeholders, the SECP Regulation and Enforcement Bill and the Securities Bill were under active deliberation by relevant standing committees. The bills, however, lapsed after the dissolution of the National Assembly. The SECP has accelerated the process for Parliament's approval of the bills.

Capacity building

The SECP is focused on achieving its broader public policy objectives and we are mindful of the need to persistently strengthen the capacity of our workforce. To this end, we are fully committed to upgrading the human resource as well as augmenting the capital market and corporate sector infrastructure. Many in-house training sessions were organized both for the SECP staff and the industry participants, some of them were conducted by international trainers. To have hands-on international regulatory exposure, our teams visited many jurisdictions such as the US, the UK, Malaysia, Turkey and Iran to learn more about their regulatory systems, policies and practices. The focus on trainings will accelerate as the year progresses and various training programs have been planned for the SECP workforce. Further, in order to encourage and strengthen the technical expertise of our officers, we—in collaboration with Chartered Financial Analyst (CFA) Association of Pakistan—offered scholarships for the CFA program that were fully utilized for the CFA level I and II examinations held during the year.

Technological advances and efficiency

The SECP has devoted a large chunk of its resources to upgrading the technological infrastructure and staying up to date with the latest technological advancements. We are working on key automation projects, which are on the cutting edge of technology, to simplify the sharing of information across all the offices of the SECP. One of the landmark initiatives is the Enterprise Resource Planning (ERP) project to fundamentally enhance the efficiency of the key operations of the SECP. In this regard, we are also working towards developing a central knowledge databank to preserve institutional memory and decrease time required in retrieving and accessing historical and current data and information required by various stakeholders.



Knowledge advances, education and investor awareness

One of the key priorities of the SECP is to protect the interests of the investors and policyholders by raising awareness of the relevant stakeholders to make informed investment decisions. Recognizing the importance of financial education, the SECP—in collaboration with key capital market stakeholders such as the Institute of Capital Markets (ICM), MUFAP, exchanges and the Pakistan Insurance Institute—launched a countrywide program for investor education targeting various categories of potential investors such as university students, general investors and retired individuals. In this regard, investor guides were developed keeping in view the sophistication level of investor and almost 30 investor awareness seminars were organized nationwide in collaboration with various stakeholders.

The SECP is working to set standards of professional conduct for the market participants through certifications. The SECP is actively engaged with the ICM to develop certification programs for those performing various functions with market intermediaries, with the eventual aim of mandating such programs for all persons providing services in the capital markets. Currently, the ICM is running a certification program for stock brokers, mutual fund distributors and analysts. During the year, 172 individuals obtained certifications from the ICM, 4 stock broker certifications and 168 mutual funds distributor certifications.

In order to encourage knowledge sharing, conferences were held at Sindh Judicial Academy, Karachi on February 8, 2013, and Punjab Judicial Academy, Lahore on November 16, 2012, to discuss ideas, roles, functions and jurisdiction of judiciary under laws regulated by the SECP.

Corporate governance

At the SECP, we are of the view that companies following good corporate governance principles will benefit from higher valuations, improved profitability, and gain broader access to external financing than their poorly-governed peers. In broader perspective, good corporate governance will help Pakistan in yielding higher investment and capital formation from local and foreign investors, and reduce economic vulnerability to financial crisis. Therefore, the SECP launched two key reforms in order to promote transparent and accountable corporate governance practices, the SECP issued draft 'Principles of Corporate Governance' for unlisted companies and 'Public Sector Companies

(Corporate Governance) Rules, 2013' approved by the federal government to provide a governance framework for public sector companies owned and controlled by the government.

In order to raise awareness on enhanced corporate governance standards, the SECP—in collaboration with the IFC—organized a training and awareness session on the Code of Corporate Governance covering both listed companies and state-owned enterprises (SOEs). People from stock exchanges, SOEs, listed companies and government ministries attended it. In collaboration with ICAP, the SECP also conducted two sessions to raise awareness about the Code of Corporate Governance. The SECP and IFC have also signed an MoU for cooperation and technical assistance on corporate governance to strengthen the corporate governance practices in the country.

Commitment to international cooperation and collaboration

In FY2013, the SECP considerably contributed to the international regulatory policymaking efforts. The International Organization of Securities Commissions (IOSCO) Principles are one of the key standards and codes highlighted by the Financial Stability Board (FSB) to ensure sound financial systems in a jurisdiction, and therefore, require priority implementation. Thus, for effective application of international standards and best practices, the SECP during the year, initiated the process of undertaking its self-assessment against the IOSCO Principles for securities regulation.

As an elected member from the Asia-Pacific region to the IOSCO Board, the SECP significantly contributed to setting of the IOSCO strategic goals and priorities, which define the path to be followed by the organization. The SECP has also strengthened its position at the international forum by becoming the vice-chair of the IOSCO Committee on Regulation of Market Intermediaries. The committee headed by Hong Kong includes representation from some of the leading economies in the world. Apart from policy work at an international level, the SECP has also been actively pursuing enforcement cases through the assistance of foreign regulators under the IOSCO Multilateral Memorandum of Understanding on Cooperation and Enforcement.

Furthermore, as a member of the Organization of Islamic Countries (OIC) Committee for Commercial and Economic Cooperation (COMCEC), the SECP was mandated to head a task force on market development. The task force aims at reinforcing



capital market regulators to support financial markets in operating effectively in the best interest of investors. Being the chair of the task force, the SECP is finalizing its report on Development of Capital Market Infrastructures. Finally, the SECP played a major role in assisting the Securities and Exchange Organization (SEO) Iran in developing a strong and robust credit rating regime; the SECP as well as both the credit rating agencies of Pakistan provided sustained support for a considerable period of time to assist the SEO Iran in this regard.

Being a member of Corporate Registers Forum (CRF), an international forum for corporate registries around the world, the SECP participated in its annual conference, 2013 and made Pakistan's registry scorecard presentation. The conference was attended by delegates from 43 global registries for the primary purpose of sharing knowledge, particularly related to paperless environment/online services regime.

Looking ahead

In order to catalyze the next phase of growth within our market, I firmly believe that it is essential for us to step up our efforts to promote greater vitality in the face of competitive pressures from across the region. It is imperative for us to swiftly capitalize on this window of opportunity to ensure that the market can continue to be positioned competitively and emerge as a globally competitive capital market. In doing so, the regulatory philosophy, and market structures and practices must continue to proactively evolve in response to the changing external environment.

With regard to creating an enabling environment, a lot of good work has gone into laying the foundations of an organizational structure that allows synchronizing of various roles and functions within the SECP, while simultaneously promoting specialization. Such a structural alignment has allowed our most precious resource, our people, to play to their strengths to deliver world class regulation, supervision, investigation and enforcement without compromising on our market development mandate; we intend to vigorously pursue this course in the coming years.

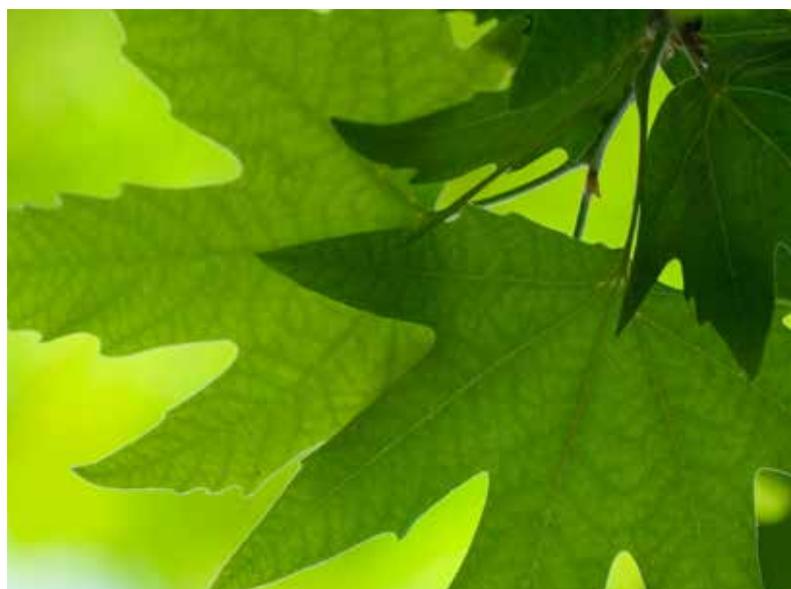
We are fully conscious of the fact that it is our duty and responsibility to make the capital market more disciplined, transparent, accountable, effective and a source of long-term financing. We are making constant and earnest efforts to achieve these goals. In the backdrop of the current local and global economic situation a concerted effort is needed to boost the confidence of investors.

All market participants such as brokers/dealers, asset management companies, auditors, credit rating agencies, private entrepreneurs, NBFIs, insurance companies, state-owned enterprises, stock exchanges and regulatory organizations must work together.

I would also like to highlight some of the key initiatives that the SECP will be taking during FY2014 to take our corporate and capital markets to the next level:

- Development of Islamic capital market
- Simplifying the IPO process
- Introduction of SMEs exchange/board
- Implementation of recommendations of NBF reforms committee
- Framing of whistleblowers' protection law
- Establishment of an audit oversight board
- Introduction of limited liability partnership concept
- Setting up investor education and protection fund
- Development of bancassurance regulations
- Regulatory regime for insurance surveyors
- Framing of Third Party Administrator (TPA) Regulations, 2013, pertaining to healthcare insurance
- Upgrade of information technology

In conclusion, I would like to express my deep appreciation and gratitude to the commissioners and employees of the SECP for their sterling commitment and professionalism, the stakeholders for their support and finally, the esteemed members of the Securities and Exchange Policy Board for their valuable guidance and support.





Securities and Exchange Policy Board

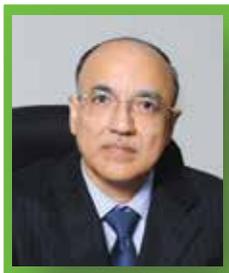
As of June 30, 2013, the Policy Board consisted of the following individuals:



Dr. Waqar Masood Khan
Finance Secretary
Chairman
Securities and Exchange Policy Board



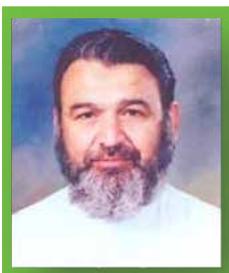
Mr. Ashraf Mahmood Wathra
Deputy Governor, State Bank of Pakistan



Mr. Tahir Mahmood
Acting Chairman
Securities and Exchange Commission of Pakistan



Mr. Munir Qureshi
Secretary
Commerce Division



Mr. Justice Muhammad Raza Khan (ret)
Secretary, Law, Justice,
Human Rights and Parliamentary Affairs



Securities and Exchange Policy Board

The 1997 Securities and Exchange Commission of Pakistan Act provides that the federal government shall appoint a Securities and Exchange Policy Board consisting of 9 members, of which five shall be from the public sector and four from the private sector. The ex officio members are federal secretaries for finance, law, commerce, SECP chairman, and a deputy governor of the State Bank of Pakistan (SBP) nominated by the SBP governor. The federal government has designated the finance secretary as the chairman of the board.

Mr. Abdul Wajid Rana, the finance secretary, served as the board chairman until February 12, 2013, when Mr. Abdul Khaliq, additional finance secretary, was made secretary on an acting charge basis. He ceased to be the board chairman on April 3, 2013, on the appointment of Mr. Nasir Mahmood Khosa as the finance secretary. On April 15, 2013, Dr. Waqar Masood Khan was appointed the finance secretary, and he has been the board chairman since then.

Mr. Faisal Bari ceased to be a board member on December 23, 2012. Appointed on December 24, 2008, he was from the private sector. Subsequently on September 4, 2013, the federal government appointed three members from the private sector. As for ex officio board members, Justice Yasmin Abbasey (ret), the law secretary, remained on the board up to March 14, 2013, when Mr. Sohail Qadeer Siddiqui, senior joint secretary, law, was named the law secretary on an acting charge basis. On April 18, 2013, Mr. Justice Muhammad Raza Khan (ret) was made the law secretary, and an ex officio board member. Mr. Muhammad Ali, the SECP chairman, ceased to be a board member on April 12, 2013, when the Supreme Court invalidated his appointment.

Board's objectives

The board has been entrusted to

- When so asked to do and after consultation with the SECP, advise the federal government on all matters that fall within the regulatory ambit of the SECP.
- Consider and approve, with or without modification, any regulations with respect to the implementation of policy decisions, proposed to be made by the SECP.
- Consider and approve, with or without

modification, the SECP's budget for each financial year.

- Express its opinion in writing on any policy matter referred to it by the federal government or the SECP.
- Oversee the performance of the SECP to the extent that the purposes of the 1997 Act are achieved.
- Exercise all such powers and perform all such functions as are conferred or assigned to it under the act.
- Specify fees, penalties and other charges chargeable by the SECP for carrying out the purposes of the act.

Apart from above, all policy decisions, including any change in previously established policy, in respect of all and any matters within the jurisdiction of the SECP shall be made only by the board. The board may make policy decisions suo moto or adopt such policy recommendations of the SECP, with or without modification, as the board may deem fit in its discretion.

Five meetings of the board were held during the year under review wherein 26 agenda items and 4 other business items were taken up and decided appropriately. In these meetings the board was given the following detailed presentations on functions and performance of the SECP:

- Status of implementation of corporatization, demutualization and integration of the KSE, LSE and ISE.
- Concept and international comparison of capital requirements.
- Overview of manuals to be implemented by the SECP:
 - Offsite Surveillance and Monitoring Manual.
 - Inspection Manual.
 - Enquiry and Investigation Manual.
 - Adjudication Manual.
 - Litigation Manual.
- Draft Public Sector Companies (Corporate Governance) Rules, 2012.
- Update on the Acquisition of a plot for the SECP's building in Karachi.



Board's major policy decisions

The following major issues came under discussion and appropriate decisions were made by the board:

- Approved submission of the SECP's Annual Report along with its Annual Accounts for the financial year ending June 30, 2012, to the federal government.
- Approved the SECP's budget for the financial year 2012-2013.
- Approved grant of bonuses, salary increases and compensation review of the SECP's employees for 2012.
- Approved Voluntary Pension System (VPS) for the SECP employees and consequential amendments to the its Service Manual as well as the HR Handbook.
- Approved the introduction of new designations in the present pay scales of management cadre employees of the SECP.
- Approved the Takaful Rules, 2012.
- Approved amendments to the SECP's HR Handbook relating to disciplinary procedure for the SECP employees.
- Determined the remuneration of the SECP's new commissioner.
- Approved readjustment/status of the headcount positions of the SECP.
- Approved rationalization/increase in the rate of existing fee for below mentioned services rendered by the Securities Market Division:
 - Increase in fee chargeable for renewal of registration of clearing houses under the Clearing Houses (Registration and Regulation) Rules, 2005.
 - Levy of fee on "off market" transactions executed in securities listed on the exchange.
 - Levy of supervision fee on stock exchanges, mercantile exchange, clearing house and depository company under the 1997 Securities and Exchange Commission of Pakistan Act.

Board's intent

1. The board noticed that more and more meetings of boards of directors of some listed companies incorporated in Pakistan were being held abroad. However, recognizing the presence of foreign participation in listed companies, circumstances of requirements of physical presence for deliberating on confidential matters and security concerns in Pakistan raised by such directors, it was not deemed appropriate to completely ban companies from holding their board meetings abroad. In this regard, it was desired that the SECP should review its decision of allowing the listed companies to hold their board meetings abroad and update the Policy Board on this issue.
2. The board desired that according to section 13 of the 1997 Securities and Exchange Commission of Pakistan Act the board is required to meet as often as may be necessary for the performance of its functions but not less than four times in a calendar year. Therefore, it was decided that in future, the Board will meet regularly in the last month of every quarter of the year.
3. While discussing, the draft Public Sector Companies (Corporate Governance) Rules, 2012, the board desired that the SECP should draft a concept paper on establishment of holding company for public sector enterprises in line with international best practices. Once the concept paper is approved by the Board, it should then be taken up with the federal government.

Strategic objectives of the SECP

Sectors/markets

- Introduce market depth and enhance liquidity in equity markets
- Establish liquid debt capital markets and encouraging introduction of debt derivatives
- Promote commodity and currency trading
- Promote growth of mutual fund industry
- Strive for revival of NBFI sector
- Promote growth of insurance products
- Aspire for fair and transparent corporate sector reporting and sharing of profits with minority stakeholders

Capabilities/processes

- Amend existing laws and introduce new laws for ensuring a better regulatory environment and protecting investor and public interest
- Ensure state-of-the-art IT and communication infrastructure
- Build stronger relationships with multilateral agencies and other international corporate and capital market regulators

People

- Ensure that the performance evaluation system is fair and transparent
- Ensure HR systems drive employee motivation and create a happy work environment
- Ensure employees' total remuneration package (financial+non-financial) is in line with the market
- Encourage employee training and development

Regulatees

- Develop financially strong and well-governed market players having the desire and systems to protect investor interests
- Provide effective regulations that encourage expansion and outreach of mutual funds, stock brokers, leasing, investment banks, modarbas, insurance and other regulatees
- Ensure fair and transparent regulatory and enforcement practices
- Reduce turnaround time

Regulatees

- Work towards long-term profitable and sustainable operations of the Commission.
- Ensure cost-effective investments in Capex and physical and non-physical infrastructure



The Commission



4 1 2 3

- 1. Mr. Tahir Mahmood**
Acting Chairman
- 2. Mr. Imtiaz Haider**
Commissioner, Specialized Companies Division
- 3. Mr. Mohammed Asif Arif**
Commissioner, Insurance Division
- 4. Mr. Zafar Abdullah**
Commissioner, Securities Market Division



Tahir Mahmood

Acting Chairman

Mr. Tahir Mahmood has been associated with the Securities and Exchange Commission of Pakistan and the erstwhile Corporate Law Authority since 1989. Having been selected through the Federal Public Service Commission, as an officer of BPS 18, he has served in various key positions in the SECP/CLA. Prior to his appointment as a commissioner by the federal government in September 2010, he had been serving as executive director (enforcement) since July 2006.

A fellow member of the ICMAP and the ICSP, he has a degree in law with extensive experience in company law administration, takeover laws, corporate restructuring, mergers and takeovers, corporate finance, judicial order writing, etc.

In his capacity as adjudicating officer and member of appellate bench, while working as executive director/commissioner, he has issued around 400 judicial orders. A large number of these orders have been published in the Corporate Law Decisions (CLD), and are regularly referred to by the legal community in their corporate law practice.

He is also a member of the CLRC, which is headed by Mr. Justice Ajmal Mian, former chief justice of Pakistan. He has spearheaded the drafting of numerous laws. His expertise in corporate laws, especially company law, and takeover laws is widely acknowledged by the legal fraternity. In addition, he is a member of various professional forums, including the National Council of the ICMAP, and the South Asian Federation of Accountants (SAFA).



Imtiaz Haider

Mr. Imtiaz Haider is the commissioner for Specialized Companies Division. He has over 23 years of diverse management hands-on experience in corporate finance, corporate governance, education, development and regulations of capital markets and general management. He is a business graduate and also has a law degree. In addition, he holds a diploma from the Institute of Bankers.

Mr. Haider started his career as assistant chief manager at the National Investment Trust (NIT), a premier financial institution in Pakistan. Later, he joined a public university and served as head of department of the Business Management Department. Then, he served as head of corporate governance, NIT. He joined the SECP in 2001, and left it in 2007 as executive director of the Securities Markets Division, to join a REITs management company as its chief executive. Immediately before his appointment as commissioner, he headed the Islamabad Stock Exchange as managing director/CEO. He has attended advanced training courses in the United States, Australia, Malaysia, the UAE and India.



Mohammed Asif Arif

Mr. Mohammed Asif Arif is the commissioner for the Insurance Division. He has over 30 years of professional experience, spanning over the insurance industry as well as the regulatory authority, making him well-placed to address the industry's issues. In pursuit of the SECP's cardinal objectives of protecting the interests of policyholders and putting the insurance industry on sound financial footings, Mr. Arif through persistent advocacy and consultative dialogues with the stakeholders has accelerated the reform process. During his brief stint with the SECP, the industry has witnessed new regulations in the areas of insurance solvency, takaful, microinsurance, accounting, third party administrators and fit and proper criteria. He has been involved in an array of notable areas ranging from improving the business profitability through prudent risk management to training of sales force to the deployment of software systems in the insurance organizations.

He did his MBA from the Institute of Business Administration, Karachi, followed by associateship from the Chartered Insurance Institute, London, which subsequently conferred the title of 'Chartered Insurer' on him. He has also been on various technical committees of the Insurance Association of Pakistan and the Karachi Insurance Institute. He has attended numerous local and international events, including conferences, seminars and workshops. He is considered an expert speaker on the insurance topics, ranging from takaful to microinsurance.



Zafar Abdullah

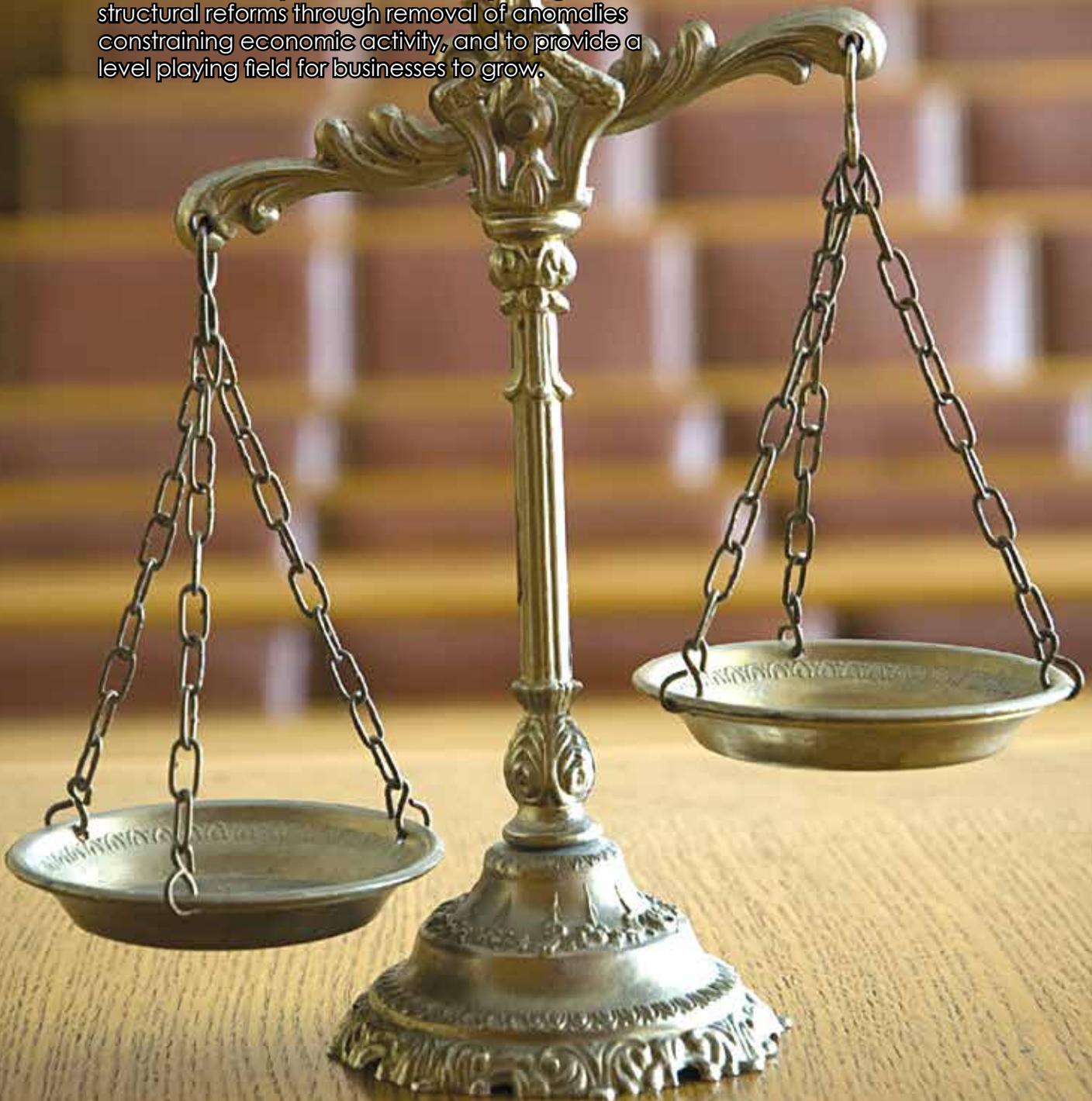
Mr. Zafar Abdullah is the commissioner overseeing the functions of the Securities Market Division, Litigation, Legislation and General Counsel Department and Support Services Division. He holds a bachelor's degree in commerce from the University of Karachi and is a fellow member of the ICAP. He did his chartered accountancy from KPMG Pakistan and received extensive training in the areas of assurance and audit, financial advisory and corporate advisory.

Earlier, he had served the SECP as executive director in the Securities Market Division, KSE as chief of operations, CDC as head of operations, Dewan Mushtaq Group as chief compliance officer and Company Secretary and Crosby Securities Pakistan Limited as its CEO. His last assignment was as company secretary and head of Legal Division with Faysal Bank Limited. He rejoined the SECP on August 17, 2012.



How and whom we regulate

The development of a fair, efficient and transparent regulatory framework lies at the heart of everything we do at the SECP. Our comprehensive strategy encompasses continuation of reforms in the capital markets and corporate sector, deepening of structural reforms through removal of anomalies constraining economic activity, and to provide a level playing field for businesses to grow.





How and whom we regulate

Company Law Division

Corporatization and Compliance Department

How	Whom		Responsible department	Number of employees
	Type	Number		
<ul style="list-style-type: none"> ▪ Supervise and monitor CROs ▪ Grant license to non-profit associations ▪ Perform delegated powers of the Commission ▪ Perform statutory powers of registrar of companies ▪ Process appeals, revision and review applications ▪ Liaise with other jurisdictions ▪ Develop legal framework ▪ Improve facilitation mechanism including eServices 	Private companies, public unlisted companies, single member companies, companies limited by guarantee, non-profit associations, trade associations, foreign companies	61,989	Corporatization and Compliance Department	32
<ul style="list-style-type: none"> ▪ Register companies ▪ Process mortgages/charges related matters ▪ Issue certified true copies ▪ Provide inspection of companies' record ▪ Issue certificates of commencement of business ▪ Handle alterations to Memorandum and Articles of Association ▪ Grant approvals and permissions ▪ Examine and record statutory returns ▪ Adjudicate defaults falling within the jurisdiction of CRO ▪ Enforce compliance ▪ Dissolve companies ▪ Implement facilitation schemes 	Private companies, public unlisted companies, single-member companies, non-profit associations, companies limited by guarantee, trade associations, foreign companies	61,989	Company Registration Offices	164

Enforcement Department

How	Whom		Responsible department	Number of employees
	Type	Number		
<ul style="list-style-type: none"> ▪ Enforcement of corporate laws ▪ Adjudicate on default and process appeal, revisions and review applications, where filed ▪ Conduct inspections and investigations ▪ Grant regulatory approvals ▪ Review of compromises and scheme of arrangements. ▪ Propose and/or amend rules and regulations ▪ Monitor regulatory compliance by companies <p>Activities specific to listed companies:</p> <ul style="list-style-type: none"> ▪ Enforcement of takeover laws ▪ Process for approval and issue of shares otherwise than right, preference shares and shares at a discount ▪ Facilitation to listed companies by granting relaxation from certain rules of further issue of capital 	Public listed companies Non-listed companies Non-listed companies include: Public non-listed companies Private limited companies with a paid-up capital of Rs7.5 million and above (excluding NBFCs and notified entities, REIT schemes, private equity and venture funds, modarabas, insurance companies and stock brokerage houses) Foreign companies in Pakistan Companies registered in terms of provisions of sections 42 and 43 of the 1984 Companies Ordinance	475 listed companies 9,733 non-listed companies	Enforcement	46



Securities Market Division

Market Supervision and Registration Department

How	Whom		Department/Wing	Number of employees
	Type	Number		
<ul style="list-style-type: none"> ▪ Monitor and surveillance of the trading activity of all the market participants ▪ Ensure compliance of the trading activities with provisions of laws ▪ Conduct investigations/ enquiries on detection of market abuse or malpractice 	Members of the stock exchanges Individual investors and institutional investors	247	Market Monitoring and Surveillance Wing	8
<ul style="list-style-type: none"> ▪ Examination of returns of beneficial ownership 	Directors, chief executives, managing directors, chief accountants and shareholders with more than 10% shareholding of listed companies	All listed companies	Beneficial Ownership Wing	2
<ul style="list-style-type: none"> ▪ Compliance of all the prevalent laws 	Members of the stock exchanges. Stock exchanges	247 3	Compliance and Inspection Wing	6
<ul style="list-style-type: none"> ▪ By issuing and renewing certificates of registration to brokers of the stock exchanges ▪ By issuing and renewing certificates of registration to agents ▪ By issuing and renewing certificates of registration to brokers of PMEX ▪ Redress investor complaints received against the brokers, agents and stock exchanges ▪ Monitor and initiate actions against unregistered brokerage houses 	Members of the stock exchanges Agents of the stock exchanges PMEX brokers	247 285 199	Brokers and Agents Registration and Investor Complaints Wing	5

Policy, Regulation and Development Department

How	Whom		Responsible Department/Wing	Number of employees
	Type	Number		
<ul style="list-style-type: none"> ▪ Handle all policy and regulatory matters relating to the stock and commodity exchanges, CDC and NCCPL ▪ Give approval to new products/systems launch and to other operational activities of these entities ▪ Approve amendments to the regulatory framework of these entities ▪ Issue and renew licensing to securities depository and clearing companies ▪ Devise and propose rules pertaining to these entities for the approval by the federal government ▪ Appoint non- member directors on the boards of stock exchanges, CDC and NCCPL 	Karachi Stock Exchange Limited Lahore Stock Exchange Limited Islamabad Stock Exchange Limited Central Depository Company of Pakistan Limited National Clearing Company of Pakistan Limited Pakistan Mercantile Exchange Limited	6	Policy, Regulation and Development Department, SMD	11



How	Whom		Responsible Department/Wing	Number of employees
	Type	Number		
<ul style="list-style-type: none"> ▪ Issuance and Offering of Securities ▪ Approve issuance and public offering of securities ▪ Approve issuance of securities outside Pakistan ▪ Handle complaints against issuers, share registrar and transfer agents, consultants to the issuer/offerer ▪ Issue rules and regulations, guidelines governing securities issuance and offering, and suggesting amendments therein 	<p>Securities issuers/offers</p> <p>Securities issuers/offers, consultants, share registrars and bankers to the issue/offer</p>	<p>Various</p> <p>Various</p>	Capital Issue Wing	5
<ul style="list-style-type: none"> ▪ Issue licenses to special purpose vehicles. 	Securities issuers/offers			
<ul style="list-style-type: none"> ▪ Provide necessary relaxations where required, in case of issuance of commercial papers and Providing necessary relaxations from the requirements of the 1996 Companies (Issue of Capital) Rules, and listing regulations of stock exchanges, in case of issuance of securities 	Issuers of commercial papers /offers	Various		
<ul style="list-style-type: none"> ▪ Provide necessary relaxations from the requirements of balloters, transfer agents and underwriters rules 	Underwriters, balloters and transfer agents	Various		
<ul style="list-style-type: none"> ▪ Approve employees stock option schemes 	Offerers of the scheme	Various		
<ul style="list-style-type: none"> ▪ Process cases of violations of section 18A of the 1969 Securities and Exchange Ordinance 	Applicants of shares	Various		
<ul style="list-style-type: none"> ▪ Register the debt securities trustees ▪ Monitor the compliance of the covenants of the trust deeds and handle cases of relaxation of the 2012 Debt Securities Trustees Regulations 	Debt Securities Trustees	15	Capital Issues Wing	5
<p>Issuing and renewing certificate of registration</p> <ul style="list-style-type: none"> ▪ Review documents and reports filed by the credit rating companies ▪ Examine existing legal framework for credit rating companies 	Credit rating agencies	2		
<ul style="list-style-type: none"> ▪ Monitor intermediaries associated with IPOs 	Share registrar and transfer agents underwriters	All companies providing shares register and transfer service		



Specialized Companies Division

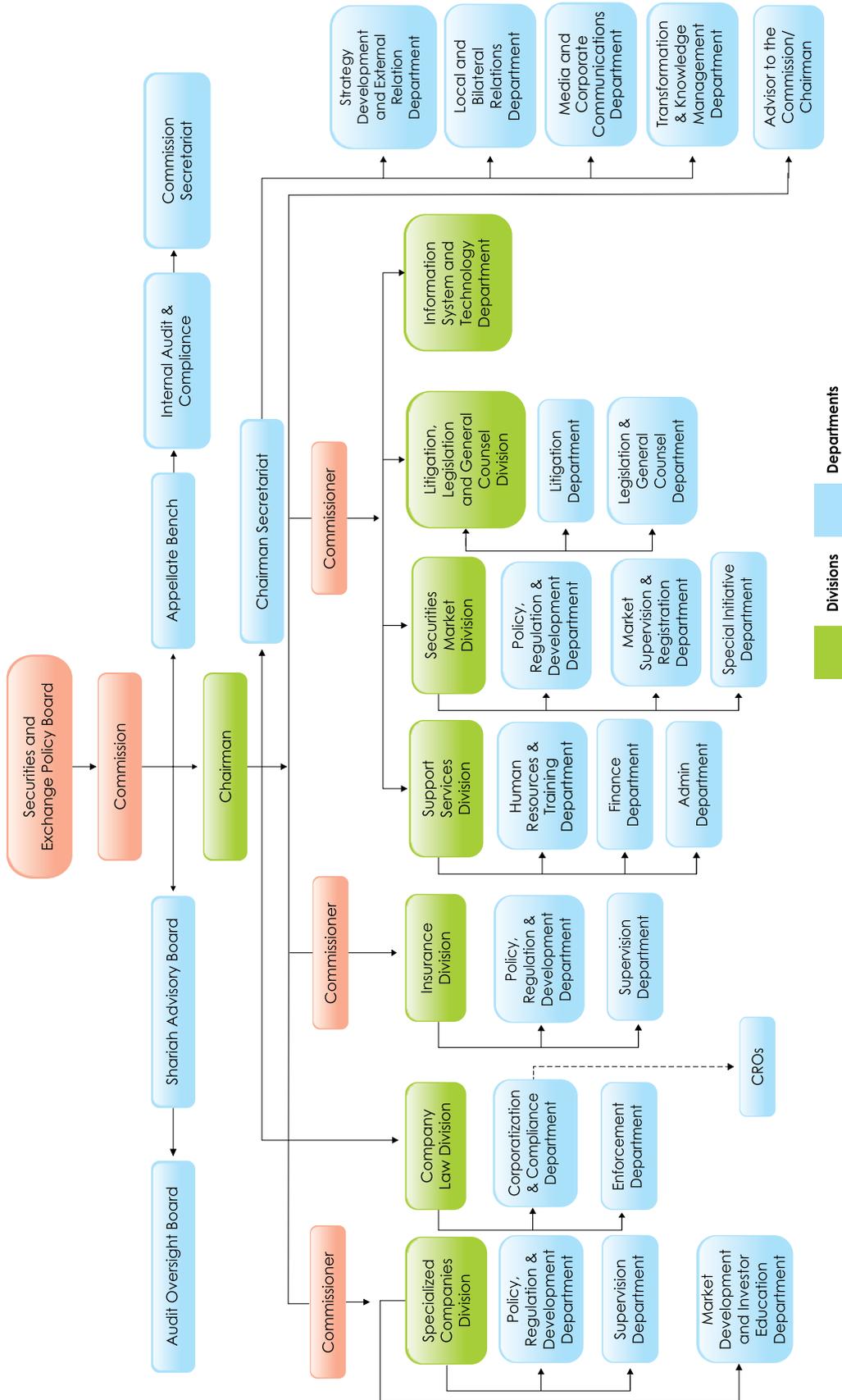
How	Whom		Responsible Departments	Number of employees
	Type	Number		
<ul style="list-style-type: none"> ▪ License, regulate and devise policies for the mutual funds industry 	Asset management companies	24	Policy, Development and Regulation Department	35
	Investment advisors	2		
<ul style="list-style-type: none"> ▪ License, regulate and devise policies for leasing, investment banks and housing finance 	Mutual funds	149	Supervision Department	22
	Leasing companies	8		
	Investment finance services	7		
	Housing finance companies	0		
<ul style="list-style-type: none"> ▪ Register, regulate and devise policies for pension funds, REITS, private equity funds 	Modaraba companies	40	Supervision Department	22
	Modarabas	26		
<ul style="list-style-type: none"> ▪ Register and regulate the modarabas and modaraba management companies 	Pension funds	11	Supervision Department	22
	REIT management companies	3		
<ul style="list-style-type: none"> ▪ Conduct offsite monitoring and surveillance on the basis of returns filed by the market intermediaries operating in the NBFCs and modarabas sectors 	Private equity companies (PE) and venture capital companies (VC)	3	Supervision Department	22
<ul style="list-style-type: none"> ▪ Conduct risk-based and periodic on-site inspections of all licensed NBFCs and modarabas entities 				
<ul style="list-style-type: none"> ▪ Undertake enforcement actions based on violations detected during the off-site and on-site processes 				
<ul style="list-style-type: none"> ▪ Adjudicate on defaults and process revisions and review applications, where filed 				

Insurance Division

How	Whom		Responsible Departments	Number of employees
	Type	Number		
<ul style="list-style-type: none"> • License, regulate and devise policies for the insurance sector 	Life insurance companies	7	Supervision and Enforcement Department	19
	Non-life insurance companies	37		
<ul style="list-style-type: none"> • Conduct offsite monitoring and surveillance on the basis of returns filed by the insurance companies 	Takaful operators	5	Policy, Regulation and Development Department	7
	Local reinsurers	1		
	Insurance brokers	9		
<ul style="list-style-type: none"> • Conduct risk-based and periodic onsite inspections of the insurance companies 	Surveying companies	202	Policy, Regulation and Development Department	7
	Authorized surveying officers	308		
<ul style="list-style-type: none"> • Undertake enforcement actions based on violations detected during the off-site and onsite processes 				
<ul style="list-style-type: none"> • Adjudicate on violations 				
<ul style="list-style-type: none"> • Strengthening the legal framework 				



Organizational structure of the SECP





Senior Management



Mr. Imran Iqbal Panjwani

Executive Director, Securities Market Division

Mr. Muhammad Asif Jalal Bhatti

Executive Director, Specialized Companies Division

Mr. Arshad Javed Minhas

Executive Director

Mrs. Bushra Aslam

Secretary to the SECP

Mr. Nazir Ahmed Shaheen

Executive Director, Corporatization and Compliance Department

Mr. Aamir Khan

Executive Director, Chairman's Secretariat

Mr. Muzaffar Ahmed Mirza

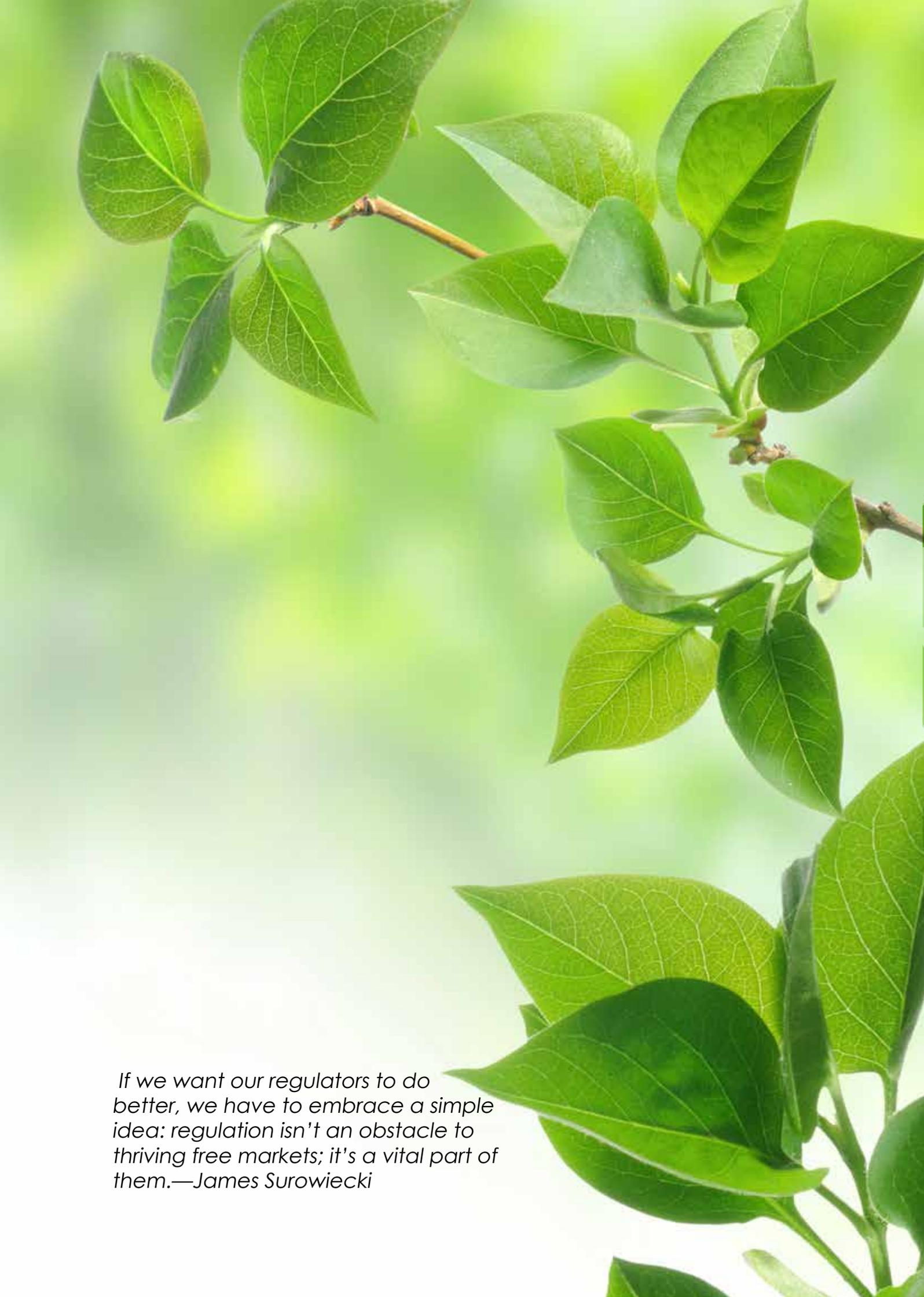
Director, Litigation, Legislation and General Council Division

Mr. Ali Azeem Ikram

Director, Enforcement, Company Law Division

Mr. Abid Hussain

Director, Support Services Division



If we want our regulators to do better, we have to embrace a simple idea: regulation isn't an obstacle to thriving free markets; it's a vital part of them.—James Surowiecki



Company Law Division



Corporatization and Compliance Department

Nazir Ahmed Shaheen (ED/HOD) with Muhammad Anas Noman, Muhammad Musharraf, Saila Jamshaid, Mubasher Saeed Saddozai, Waseem Ahmad Khan and Sumaira Siddiqui.



Enforcement Department

Ali Azeem Ikram (Director/HOD) with Maheen Fatima, Shahzad Afzal, Bilal Rasul, Ayesha Riaz and Amina Aziz.



Progress on annual targets

Corporatization and Compliance Department, CLD

Targets

- Introduce mandatory online filing
- Create a paperless environment and enable hassle free online submission of documents
- Develop Public Sector Companies (Corporate Governance) Rules
- Develop (Cost Accounting Records) Order for 5 sectors in coordination with ICMAP

Achievements

- Introduced mandatory online filing for listed companies, companies that last filed their return through eServices and which will file any return in eServices from May 13, 2013, onwards as a step towards paperless environment
- Public Sector Companies (Corporate Governance) Rules, 2013, approved by the federal government
- Cost Accounting Records Order for Synthetic and Rayon industry, Power Generation and Pharmaceuticals Industry notified

Highlights

- In the light of tax proposals submitted to FBR, the federal government reduced corporate tax rate to 34%, while committing to further reduce the rate, gradually, over the period of next 5 years
- Around 3,000 dormant/defaulters companies have been struck-off while around 6,000 companies are under process for strike-off action
- Around 2,600 companies availed CRS, while more than 1,400 companies applied under CEES.

Targets

- Enable online payment
- Establish one-stop shop
- Develop guide booklets

Achievements

- Arrangements are being finalized with MCB and UBL for online fund transfer facility, credit card payment and payment through Omni dukkan
- One-stop Shop (OSS) Business Registration Reform project underway – MOU being signed with FBR and EOBI for launch of a virtual OSS
- Guides on *Transfer of Shares and Debentures* and *Loan to Directors* were completed. While two more guides *Election of Directors* and *Removal of Auditor* are in the process of development



Company Law Division

The Company Law Division (CLD) is entrusted with a wide array of responsibilities that encompass regulation, monitoring and enforcement of laws pertinent to the corporate sector. In recent years, it has brought about necessary amendments to the existing laws as well as enacted new laws to cater to the changing business needs and scenario. The CLD also undertakes strict monitoring and vigilance of the corporate sector with a view to promoting transparency, accountability and good corporate governance practices, thereby protecting the interests of investors.

The division comprise of 2 departments:

- Corporatization and Compliance Department
- Enforcement Department

Corporatization and Compliance Department

The Corporatization and Compliance Department (CCD) is responsible for administering the 1984 Companies Ordinance, and the rules and regulations made under it along with other relevant laws. Its primary functions include registration of companies, regulating their statutory responsibilities, and monitoring corporate compliance through examination of statutory returns and accounts. These functions are performed by our Company Registration Offices (CROs) in Islamabad, Karachi, Lahore, Peshawar, Quetta, Multan, Faisalabad and Sukkur. The department supervises, coordinates, and monitors the workings of the CROs.

It also performs a number of other functions, i.e. licensing of non-profit associations, developing legal framework, exercising delegated powers of the Commission and statutory powers of the registrar of companies, improving facilitation mechanism and processing appeals, review and revision applications.

Key achievements

During the period under review, the department embarked on many initiatives aimed at further improving the facilitation mechanism for stakeholders. Some of its key achievements are:

Fast track registration services

In order to facilitate prospective promoters, corporate consultants and management of the companies, especially in urgent cases and peculiar situations the fast track registration services (FTRS) were introduced by the SECP. The FTRS are currently available for core processes such as availability of name, incorporation of companies, change of name and charge registration, modification and satisfaction processes.

During the financial year under review, the SECP received 1,336 cases under FTRS; 253 were for incorporation of companies, 959 for name availability, 8 for name change, while 116 pertained to charge registration, modification and satisfaction. It is pertinent to mention that 82% of FTRS cases received by the SECP are filed through eServices/online, representing a major shift towards online filing regime.

eServices project

The SECP achieved an important milestone in 2008 by launching the eServices project, facilitating the online availability of name, incorporation of companies, filing of statutory returns, and enabling promoters and other officers of companies to interact online using the eServices portal, without visiting the CROs. It has resulted in numerous benefits for the general public, as well as the SECP.



In order to facilitate companies in the eServices regime, the following activities were undertaken during FY2012-13:

Mandatory online filing of returns

The SECP took another step to improve the efficiency of the corporate sector by accelerating the receipt, acceptance and dissemination of time-sensitive corporate information filed with it. In this regard, it has been made mandatory for following categories of companies to file all the documents, returns, accounts and applications through eServices with the SECP or relevant registrar w.e.f. May 13, 2013:

- a. All listed companies; and
- b. Companies which filed last document, return, accounts or any application through eServices or will file any document, return, accounts or application through eServices from the date of applicability of said notification.

Earlier, it was made mandatory for companies registered online through eServices since May 16, 2012, to file their subsequent statutory returns electronically with the SECP or the relevant registrar. This is another step towards paperless environment in the SECP.

An extensive awareness campaign was run for the purpose of creating awareness. Emails and letters were written to companies and stakeholders, i.e., chambers of commerce, ICAP, ICMAP and ICSP. The advertisements were published in major newspapers as well.

Formation of an automation committee

A committee was formed to analyze critical success factors, barriers and formulate strategy/action plans, for achieving full automation of services provided by the SECP. The committee thoroughly analyzed the matter and further work is in progress.

Development of legal framework

Issuance of Cost Accounting Records Order

In order to bring uniformity to the cost records and cost audit reports, the SECP has developed the draft order in consultation with the ICMAP. The cost audit can only be an effective regulatory tool when the cost records are properly prepared and cost audit reports are made on a uniform format for a particular sector. The SECP has notified Special Cost Accounting Records Order for Synthetic and Rayon industry and draft Power Generation Cost Accounting Records Order, Pharmaceuticals Industry (Cost Accounting Record) Order, for the companies engaged in these sectors.

Public Sector Companies (Corporate Governance) Rules, 2013

The federal government approved the Public Sector Companies (Corporate Governance) Rules, 2013, under section 506 of the 1984 ordinance to provide a governance framework for the public sector companies owned and controlled by the government. Earlier, a task force on corporate governance of public sector enterprises was formed by the federal government, which formed a technical committee to review the draft Public Sector Companies (Corporate Governance) Regulations prepared by the SECP. The regulations were extensively discussed in a series of roundtables held in Karachi, Lahore and Islamabad, and stakeholders' feedback was taken into consideration. After review by the technical committee, the draft regulations were placed before the task force which approved the same in the form of rules to provide more legal sanctity to the proposed framework. The federal government extended the implementation date of the rules to July 8, 2013. The rules will apply to all those companies in which the government has at least 50% voting or control rights.



Public Sector Companies (Corporate Governance Compliance) Guidelines, 2013

The SECP approved the Public Sector Companies (Corporate Governance Compliance) Guidelines, 2013, to prescribe a compliance statement to be prepared by the public sector companies in pursuance of rule 24 (1) of the Public Sector Companies (Corporate Governance) Rules, 2013. Besides the statement of compliance, the guidelines also contains a statement for explanation on non-compliance with any provisions of the rules as well as future course of action, and a review report from the external auditors of the public sector company on the statement of compliance. The guidelines shall come into force around June 30, 2014.

Amendment to the 2003 Companies (Registration Offices) Regulations

In order to facilitate the corporate sector the SECP amended Regulation 10 of the 2003 Companies (Registration Offices) Regulations, substantially reducing the additional filing fee on late submission of statutory returns and accounts. Consequently, the period of payment of additional filing fee has been spread over 2 years instead of just 45 days. Before the said amendments, heavy additional fee was being charged on late filing of documents, which was considered a major reason for non-compliance and low rate of filing of overdue statutory returns by companies.

Amendments to First Schedule to the 1984 Companies Ordinance

In order to facilitate the corporate sector, the SECP made certain amendments to the First Schedule to the ordinance, containing articles of association of companies. The amendments pertain to the introduction of the globally prevalent concepts of alternative dispute resolution (ADR) mechanism, and specie dividend, as well as holding of the meetings of the board of directors through tele/videoconferencing, sending of notices through email, and procedure for election of directors for companies limited by guarantee and not having a share capital.

Regulatory actions

Capital issues

(a) Issue of shares other than right

Approval was granted to 2 companies for issuance of shares other than right to existing shareholders in terms of proviso of sub-section (1) of section 86 of the ordinance amounting to Rs105 million.

- i. Dewan Mushtaq Trade Limited (Rs79,500,000)
- ii. National Industrial Parks Development and Management Company (Rs24,693,863)

(b) Issue of shares with varied rights and privileges

Sayed Engineers Limited obtained approval for the issuance of 8,000 class B ordinary shares of Rs10 in terms of section 90 of the 1984 ordinance read with Rule 5 (1) of the 2000 Companies' Share Capital (Variation in Rights and Privileges) Rules.



(c) Issue of preference shares as other than right

Two cases of Rs250 million were processed in terms of proviso of sub-section (1) of section 86 of the Ordinance and Rule 5 (1) of the 2000 Companies' Share Capital (Variation in Rights and Privileges) Rules. Violations of relevant provisions of the law were observed and the matters were referred to the competent authority for cognizance of offence under the law.

- i. Shafi Texcel Limited
- ii. Everfresh Farms (Pvt.) Limited

Amalgamations and mergers of companies

During the year, in response to the SECP's oral and written representations, the courts approved the amalgamation in respect of the following cases:

1. Diamond Limited into Amer Tex (Private) Limited
2. Feroze Textile Industries (Pvt) Ltd. into Feroze 1888 Mills Limited, Friendship (Pvt) Ltd , UIT Industries Limited
3. Kings Food (Pvt) Ltd. into Hilal Confectionery (Pvt) Ltd.
4. Linkdotnet Pakistan (Private) Limited into Linkdotnet Telecom Limited
5. Citistar Housing (Pvt.) Limited into Citi Housing (Pvt.) Limited
6. National Tanneries of Pakistan (Pvt.) Limited into Elegant (Pvt.) Limited
7. Document World Pakistan (Pvt.) Limited and Swift Logistics (Pvt.) Limited into DWP Technologies (Pvt.) Limited

Approvals and permissions

Under the provisions of the ordinance, 74,031 applications seeking regulatory approvals were received, and after due consideration necessary approvals were granted by the SECP or the registrar (Table 1).

Processing of application for grant of licenses to non-profit associations

During the financial year 2012-13, 42 licenses were issued to non-profit associations under section 42 of the ordinance. The SECP ensures a quick disposal of applications seeking licenses to non-profit associations. The relevant statistics pertaining to non-profit associations are provided below:

Object	Number of non-profit associations u/s 42, companies u/s 43 and trade organizations incorporated during 2012-13	Total number of non-profit associations u/s 42, companies u/s 43 and trade organizations as of June 30, 2013
Commerce	2	243
Art	2	12
Science	7	21
Religion	0	10
Sports	0	26
Social services	31	235
Charity	0	61
Others	9	269
Total	51	877



Monitoring and enforcement

Investigations into affairs of companies and special audit

The SECP processed 9 applications during 2012-13 under section 263 of the ordinance for investigation of affairs of the companies that were allegedly not being managed in accordance with the law.

Adjudication of cases under the ordinance

The registrar of companies and the CROs adjudicated 1,249 cases of violation of various provisions of the Ordinance and punitive actions were taken against errant companies (Table 2).

Dissolution of companies

The SECP disposed of 2,290 cases of dissolution of companies. Of these, 242 companies wound up voluntarily, 1 company liquidated under court orders and 2,047 companies were struck off from the register under section 439 of the ordinance. The dissolved companies had a cumulative paid-up capital of Rs2.9 billion.

Protection of stakeholders' interest

The SECP received 181 complaints from different stakeholders. Of these, 138 complaints were disposed of during the year while only 43 complaints were under process at the close of the year. The relevant statistics are provided below:

Sr. No.	Nature of complaint	Received	Disposed of	Under process
1	Mismanagement	19	10	9
2	Non-receipt of notices	1	1	0
3	Non-registration of transfer of shares	9	9	0
4	Improper holding of meetings	1	0	1
5	Miscellaneous	151	118	33
Total		181	138	43

Disposal of appeals

The SECP received 48 appeals under the ordinance. Of these, 41 were disposed of while 7 were under process at the end of the period under review. The relevant statistics are given below:

Sr. No	Relevant section of the ordinance	Nature of appeal	Received	Disposed of	Under process
1	Section 37	Appeal against refusal of company name	42	37	5
2	Section 78-A	Appeal against refusal for registration of transfer	1	0	1
3	Section 468	Appeal against refusal to accept any document	3	3	0
4	Section 477	Appeal and revision application against order passed under section 476 (1)	1	1	0
5	Section 484	Revision and review of any orders passed other than section 476	1	0	1
Total			48	41	7



Developmental activities

Measures to promote corporate compliance

- **Activation/strike-off drive:**

In order to increase the compliance rate, the SECP launched a comprehensive activation/strike-off campaign to activate defaulter companies and strike off defunct companies. The lists were made of defaulter and defunct companies and were placed on the SECP's website. Around 3,000 companies have been struck off from the register of companies, since the launch of subject drive in 2011, and nearly 6,000 more companies are being struck off. A number of companies have also been activated.

- **Launch of schemes**

Companies Regularization Scheme (CRS) and Company Easy Exit Scheme (CEES) remained effective from July 2, 2012 to December 31, 2012, to provide an opportunity to companies to either regularize or take advantage of the easy exit route. The schemes were aimed at providing both facilities to the companies at the same time: get your defaults regularized under the CRS by making compliance, or avail yourself of the exit facility under the CEES if the company is defunct, not carrying any business or not in operation and intends to cease its existence.

The CRS provides defaulter companies an opportunity to file their overdue statutory returns and annual accounts with lesser additional filing fees and also absolves the defaulter companies from penalties imposed on filing of overdue documents. Through CRS, the SECP intended to increase compliance rate.

The CEES, on the other hand, allows the companies having no assets or liabilities and not doing any business, to avail themselves of easy exit facility without undergoing the cumbersome winding up procedure, as laid down under the provisions of the Ordinance.

The CRS evoked an overwhelming response; 2,597 defaulter companies filed 10,587 overdue returns. Moreover, 1,410 companies applied for easy exit.

- **Implementation of mechanism to review and deal with pending returns/documents**

The SECP, in April 2013, implemented a mechanism to review and deal with pending returns/document. These returns/documents have been pending for months or in some cases for years, due to some deficiencies or incorrect data submitted by companies. As part of this mechanism, companies that file such returns shall be sent reminders to rectify the documents/returns. If the company does not file rectified return/document, the same shall be refused to be registered in company record being maintained at the CROs. Advertisements in this regard were published in major newspapers for awareness. A list of such pending cases is also available on the SECP's website.

Facilitation measures

- **Tax proposals and subsequent acceptance in Finance Act, 2013-14**

While making tax proposals to the FBR for the Finance Bill, 2013, it was proposed to progressively reduce the tax rate for companies from the present rate of 35% to 30% in case of private, public non-listed and listed companies. The proposal was based on the rationale that the initiative would result in enhanced corporatization, resulting into large tax base and revenue for the government. The fall in revenue resulting from the reduction in tax rate would be offset in the medium to long term. In short, the proposal was aimed to meet the twin objectives of documentation and economic activity.

The said proposal has been approved by the federal government in the Finance Act, 2013, which has reduced the rate of tax on the taxable income of non-banking companies from 35% to 34% for tax year 2014, to provide relief to the corporate sector. Moreover, the Finance Minister, in his budget speech, announced reduction in the corporate tax rate to 30% from the existing 35%, by providing a maximum reduction of 1% each fiscal year.



- **Facilitation extended in filing of annual returns and annual accounts**

Companies were facilitated on the due dates of filing of annual returns and annual accounts. Advertisements, public notices and press releases for creating awareness were issued. The Chambers of Commerce and Industry, ICAP, ICMAP were engaged to extend facilitation to corporate sector, create awareness and disseminate information to members. The CROs remained open late on the closing dates and last dates for filing of Form 29 was also extended to extend maximum facilitation for collection of these documents. Special counters were established at bank branches, the CROs and CC&Is.

- **Media campaigns**

Extensive advertising campaigns were run to raise awareness among stakeholders on subjects such as annual returns/accounts filing, CRS, CEES, mandatory online filing and clearance of backlog/pending documents/returns filed with the SECP. In addition, a joint awareness campaign by the SECP and the SBP against illegal businesses continued.

- **Development of guidebooks**

During the year, the development work on 2 guides entitled *Transfer of Shares and Debentures* and *Loan to Directors* was completed. Two more guides *Election of Directors* and *Removal of Auditor* are being developed.

- **Development of a comprehensive incorporation brochure**

A comprehensive brochure was developed to provide promoters concise information regarding company incorporation procedures and requirements. The brochure is available at the CROs. A soft copy can be accessed from the SECP's website.

- **Meetings with corporate consultants**

Regular meetings with corporate consultants/intermediaries were held at the CROs to obtain their feedback for improvement in various areas mainly operational working of the CROs.

- **Raising awareness**

More than 40 awareness seminars and workshops on benefits of corporatization, eServices, and corporate compliance were organized in different cities. These events were well attended and produced good results.

- **Quality assurance**

ISO 9001:2008 certification for the CROs in Karachi, Lahore and Islamabad was successfully maintained after surveillance audit by external auditor. The certification is a useful tool in improving the service quality.

- **Mandatory registration of seed companies with SECP**

One of the most important goals of the department has been promoting and facilitating corporatization. In order to achieve this goal fully, the SECP approached the Federal Seed Certification and Registration Department (FSCRD) and highlighted the benefits of corporatization for seed companies. Consequently, the FSCRD made it mandatory for all seed companies to register with the SECP. This was a major step towards transparency and documentation of the seed business.



- **SECP's participation in conferences, seminars, events and shows**

During FY2012-13, the SECP officers participated in a number of events. Some of these events are listed below:

- Handicraft festival and fashion show organized by South Punjab Women Chamber of Commerce and Industry in collaboration with the Trade Development Authority of Pakistan, as a sponsor
- Seminar with ACCA, on benefits of corporatization
- Seminar at ICMAP, on mandatory online filing regime
- Seminar with Central and North Punjab Women Chamber of Industry on benefits of corporatization and electronic filing
- Corporate Pakistan – 2012, organized by the ICMAP
- Third International Conference on Business Management at University of Management and Technology

- **SECP's participation in Corporate Registers Forum (CRF) Conference, 2013**

The SECP participated in the annual CRF conference in March 2013, held in Auckland, New Zealand. Mr. Tahir Mahmood, the CLD commissioner, and Mr. Muhammad Siddique, the registrar of companies, represented the SECP. Delegates from 43 global registries participated in the conference and shared knowledge, particularly related to paperless environment/online services regime. The SECP also made Pakistan's registry scorecard presentation at the conference.



SECP's participation in the CRF conference – March 2013

Future plans

1. eServices project

- **Mandatory online filing in a phased manner**

With the objective of boosting paperless/online services, the SECP is considering introducing next phase of mandatory online filing.

- **Online Payment System**

In order to further enhance the services' delivery to the corporate sector and to invoke the true spirit of online services regime, the option of direct transfer of funds from the depositors' accounts to the SECP account in case of fee for online applications, is being considered for implementation. Furthermore, the availability of online payment options are also being considered which will greatly enhance facilitation to the stakeholders.

- **Modules under eServices**

eServices modules for voluntary winding up, licensing under section 42 of the ordinance for non-profit associations and adjudication are being developed.



- **Provision of online access to company records**

The SECP is working on providing online access to company records through universal online inspection facility. Once this facility is made available, stakeholders will be able to view filings made by companies to the SECP.

- **Alert system**

In order to improve the efficiency and compliance, an alert system is being proposed through which automated alerts will be sent to the internal and external stakeholders.

2. **Development of legal framework**

- **Draft Associations Not-for-Profit (Licensing and Corporate Governance) Regulations**

Draft Associations Not-for-Profit (Licensing and Corporate Governance) Regulations, 2013, have been published on 9-4-2013 for eliciting public opinion and to have an in-depth interaction with the stakeholders (NGOs, chartered accountants, cost and management accountants and lawyers). For this, round table conferences were organized in coordination with Institute of Cost and Management Accountant of Pakistan (ICMAP) and Institute of Chartered Accountants of Pakistan (ICAP) in Karachi, Lahore and Islamabad. The conferences were very successful and witnessed active participation/feedback from the stakeholders, which shall help in finalizing the proposed regulations and betterment of the NGO sector in Pakistan.

- **Draft Public Sector Companies (Appointment of Chief Executive) Guidelines**

The draft guidelines have been prepared under Rule 5(2) of the 2013 Public Sector Companies (Corporate Governance) Rules, which require that the board of a public sector company shall evaluate the candidates to the position of the chief executive based on the fit and proper criteria and the guidelines specified by the SECP. In line with the requirement of the aforesaid rule, the draft Public Sector Companies (Appointment of Chief Executive) Guidelines, 2013, have been prepared to specify the procedure for appointment of, and the fit and proper criteria for the position of the chief executive. The guidelines are being reviewed before approval by the Commission.

- **Draft amendments to the 2003 Single Member Companies Rules**

The concept of incorporation of a company limited by shares by a single person was introduced through the 2003 Single Member Companies Rules. It was, however, observed that the concept of the single member company could not flourish as per expectations. The cumbersome pre-incorporation procedures, mandatory appointments of nominee and alternative nominee directors, and ambiguous provision regarding legal person intending to be a single member were found to be the main reasons. Therefore, in order to facilitate the entrepreneurs to incorporate single member companies without any hassle, certain amendments to the Single Member Companies Rules have been forwarded to the Law Ministry for vetting before their publication in the official gazette to elicit public opinion.

- **Draft amendments to Third Schedule to the 1984 Companies Ordinance**

Every company is required to file with the registrar once a year, a return containing the particulars specified in Form A or Form B of the Third Schedule. Keeping in view the amendments to the Fifth Schedule to the ordinance pertaining to the classification of companies, it was felt necessary to amend the format of Forms A and B so as to incorporate fields pertaining to classification of companies. Moreover, suggestion to include a field pertaining to national tax number (NTN) was also received from the FBR. Therefore, an exercise for amending the existing format of Forms A and B has been carried out with the coordination of respective departments of the SECP and a revised version of both forms is being proposed.



3. Public facilitation

- **One-stop shop**

The idea of establishing one-stop shop (OSS) is being explored, providing facilities starting from registering a company to formally setting up its business under one roof. A concept paper has been shared with the Ministry of Finance and the World Bank.

It has been planned to integrate business, tax and social security registrations in the first phase, with other stakeholders to be considered in the next phase. To strike out the modalities for the said project and implement this idea, a working committee comprising representatives of the SECP, FBR, and Employees Old-Age Benefit Institution (EOBI) has been formed to work under the supervision of the Economic Reforms Unit (ERU), Ministry of Finance. The World Bank has agreed to provide technical and financial support after a preliminary study of the concept.

The SECP developed a concept paper as well as a contextual model containing preliminary technical and financial feasibility of the project, which was endorsed by the OSS project team. In the first phase, a virtual OSS, for integrating the corporate, tax and social security registration functions through a single web-portal, would be established. In future, the scope of service under OSS platform is planned to be expanded to include utilities/public service providers and provincial government authorities. It is also envisaged to establish a network of physical OSSs with representation of all relevant federal and provincial regulatory authorities, in major cities and federal/provincial capitals, as well as to take non-corporate entities in the fold of OSS in active collaboration with the relevant authorities.

- **Survey on corporatization and issue of non-compliance**

In order to assess the impediments to corporatization (in case of non-corporate entities) and the reasons of non-compliance (in case of corporate entities), the department has planned to conduct an online survey on corporatization.

The target population, i.e. corporate entities as well as non-corporate entities will be invited to participate in the online survey and this invitation will be sent at their e-mail addresses. The expiry date of this survey will be mentioned in the e-mail and an automatic reminder will be sent to the participants before the expiry of time period provided for survey.

Compiled results will help in analyzing the problems faced by the non-corporate entities and the reasons of their reluctance in becoming corporate entities. Moreover, the viewpoint of non-compliant companies will also become clear from the results of this survey.

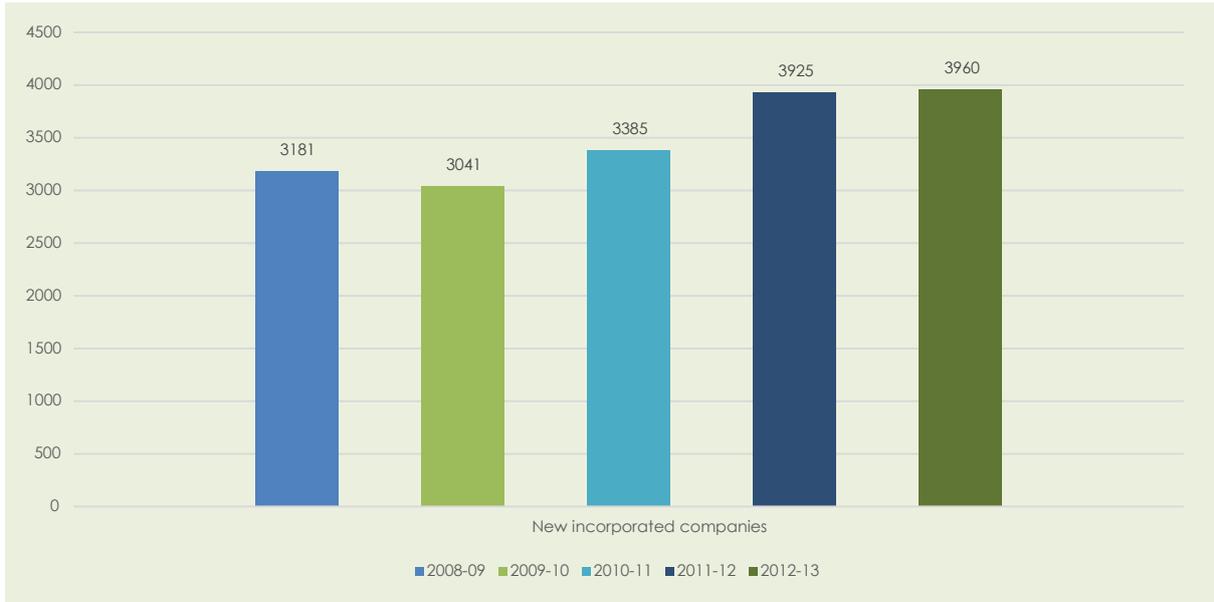
Accordingly, necessary measures will be taken to remove the difficulties faced by the investors. The response will enable us to improve our services and products. A significant increase in the incorporation rate as well as compliance rate is expected as an outcome of this survey.



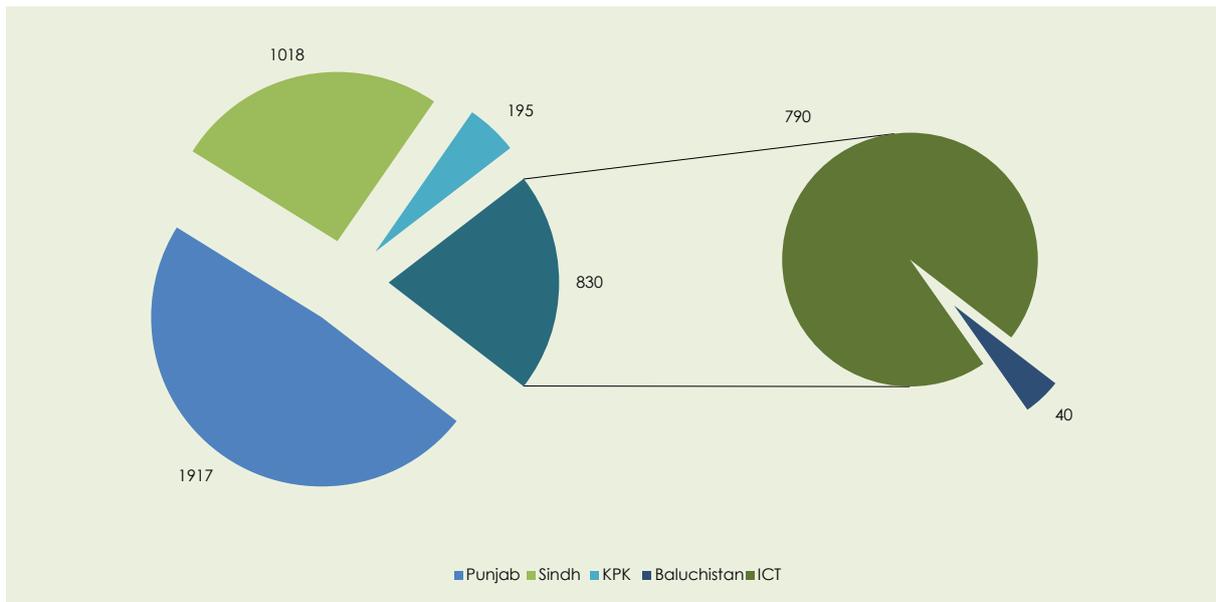
Statistics

Key statistics and graphs are provided here for the information of stakeholders. They include data pertaining to incorporation/registration of companies, foreign companies, capitalization break-down, cases approved etc.

Graph 1: Year-wise company incorporation



Graph 2: Province-wise new incorporation during FY2012-13





Graph 3: Total number of foreign companies

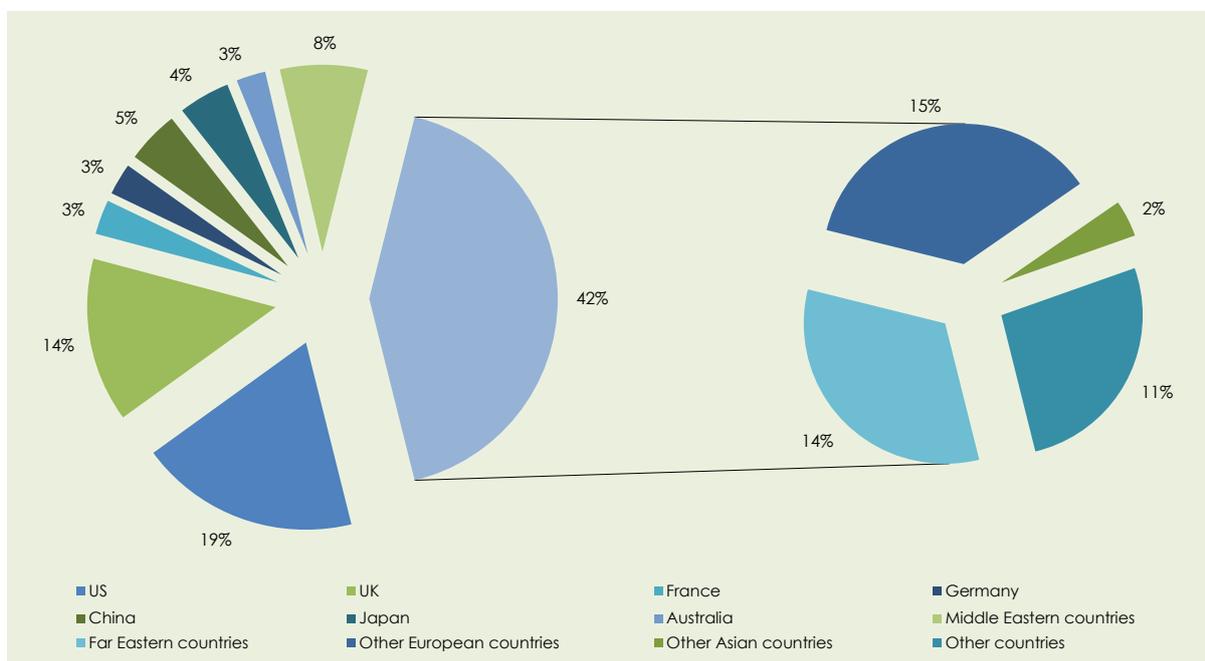


Table 1: List of cases approved under the 1984 Companies Ordinance and allied rules and regulations

Serial No.	Relevant section of the ordinance	Nature of approval/permission sought	Total
1	Section 21	Amendment to memorandum and articles of association	195
2	Section 37	Availability of name	8,614
3	Section 39	Change of name	165
4	Section 42	Grant of license to associations	49
5	Section 44	Conversion of public companies into private companies	13
6	Section 84	Issue of share at discount	1
7	Section 86	Further issue of capital	1,239
8	Section 90	Issuance of shares having different kinds and/or classes of share capital	3
9	Section 131	Registration, modification, satisfaction of charge and condoning of delay in submission of particulars of charge	6,428
10	Section 146	Commencement of business certificate	11
11	Sections 158	Extension in period for holding of AGMs by non-listed public and private companies	145
12	Section 159 (7)	Holding of an EOGM at a shorter notice	3
13	Section 170	Calling of overdue meetings	23
14	Section 195	Grant of loans to directors of non-listed public companies	4
15	Section 231	Inspection of books of account and other books and paper	3
16	Section 233	Preparation of first accounts exceeding 12 months	4
17	Section 234	Exemption from disclosure requirements	1
18	Section 237	Exemption from consolidated financial statements	5
19	Section 238	Change of financial year	8
20	Section 258	Approval of appointment of cost auditor	71
21	Section 466(6)	Issue of certified copies of documents	42,767
22	Regulation 18 of the 2003 Companies (Registration Offices) Regulations	Inspection of records maintained with CROs	12,232
23	Rule 9 of the 2003 Single Member Companies Rules	Conversion of status from private to single member company	4



Serial No.	Relevant section of the ordinance	Nature of approval/permission sought	Total
24	Group Companies Registration Regulations, 2008	Approval of registration of group and designation for group relief/group taxation	8
25		Miscellaneous (minor activities, providing information to different agencies and shareholders, etc.)	2,035
		Total	74,031

Table 2: Adjudication activity

Serial No.	Section of the 1984 ordinance, or a rule	Nature of default (give brief description)	Total
1	Under section 156	Late filing	117
2	Under section 205	Late filing	201
3	Under section 156 & 206 (Combined)	Late filing	231
4	Under section 198	Late filing	3
5	Under section 199	Late filing	7
6	Under section 172	Late filing	10
7	Under section 158	Late filing	18
8	Under section 222 & 224	Late filing	1
9	Under section 184	Late filing	54
10	Under section 157	Late filing	1
11	Under section 208	Late filing	1
12	Under section 186	Late filing	1
13	Under section 242	Late filing	488
14	Under section 142	Late filing	7
15	Under section 86	Late filing	16
16	Under section 88	Illegal deposit taking	1
17	Under section 94	Late filing	3
18	Under section 180	Late filing	20
19	Under section 174	late filing	2
20	Under section 253	Late filing	1
21	Under section 254(7)	Late filing	16
22	Under section 233	Non maintenance of accounts	1
23	Under section 260	Late filing	1
24	Under section 73	Late filing	11
25	Under section 252	Late filing	5
26	Under section 458	Late filing	1
27	Under section 492	Misstatement in the public advertisement through fraudulent promotion of housing scheme	4
28	Under section 496	Ultra vires activities	9
29	Under section 497	Improper use of the word 'Limited'	2
30	Section 258 r/w the Companies (Audit of Cost Accounts) Rules, 1998	Delay in filing of application for seeking approval for appointment of cost auditor	16
Total			1,249

**Table 3: Number and type of companies**

Type of companies	Newly incorporated companies for the financial year ending June 30, 2013	Total companies as of June 30, 2013
Companies limited by shares:		
Public listed	0	595
Public non-listed	49	2,213
Private	3,615	55,838
SMCs	210	1,623
Total companies limited by shares	3,874	60,269
Associations not for profit u/s 42	49	582
Companies limited by guarantee u/s 43	0	71
Trade organizations	2	224
Foreign companies	35	838
Public companies with unlimited liability	0	0
Private companies with unlimited liability	0	3
Companies u/s 503(2)		2
Total companies	3,960	61,989

Table 4: Capitalization breakdown as of June 30, 2013

	Listed companies	Non-listed public companies	Private companies	SMCs	Total	percentage
Paid-up capital up to Rs100,000	4	392	21,096	1010	22,502	37.34
Paid-up capital from Rs100,001 to 500,000	0	292	8,390	258	8,940	14.83
Paid-up capital from Rs500,001 to 1,000,000	0	92	6,029	152	6,273	10.41
Paid-up capital from Rs1,000,001 to 10,000,000	19	326	15,414	142	15,901	26.38
Paid-up capital from Rs10,000,001 to 100,000,000	175	629	4,092	61	4,957	8.22
Paid-up capital from Rs100,000,001 to 500,000,000	217	314	683	0	1,214	2.01
Paid-up capital from Rs500,000,001 to 1,000,000,000	67	74	68	0	209	0.35
Paid-up capital from Rs1,000,000,001 to above	113	94	66	0	273	0.45
	595	2,213	55,838	1,623	60,269	100.00

Table 5: Sector-wise distribution (limited by shares)

Sector	Total companies as of June 30, 2013	Newly incorporated companies for the financial year ending June 30, 2013
Auto and allied	765	51
Broadcasting and telecasting	511	96
Cables and electric goods	678	46
Carpets and rugs	76	1
Cement	102	3
Chemical	1,616	64
Pharmaceutical	1,308	105
Communications	2,606	162
Construction	2,951	216
Corporate agricultural farming	1,070	141
Education	894	99
Engineering	1,828	78
Finance and banking	1,083	33
Food and beverages	2,398	132
Footwear	75	3



Sector	Total companies as of June 30, 2013	Newly incorporated companies for the financial year ending June 30, 2013
Fuel and energy	1,218	76
Ginning	347	15
Glass and ceramics	271	2
Healthcare	531	62
Information technology	2,726	302
Insurance	280	8
Jute	21	0
Leather and tanneries	373	10
Lodging	454	21
Mining and quarrying	529	47
Paper and board	1,113	59
Power generation	757	98
Real estate development	1,262	47
Services	6,942	478
Sport goods	193	5
Steel and allied	502	30
Sugar and allied	175	3
Synthetic and rayon	200	6
Textile	4,698	119
Tobacco	93	4
Tourism	6,444	424
Trading	7,101	529
Transport	1,263	90
Vanaspati and allied	443	22
Wood and wood products	214	4
Miscellaneous	5,878	269
Total	61,989	3,960

Table 6: Foreign companies

Country	Newly incorporated companies for the year ending June 30, 2013	Total number of companies as of June 30, 2013
US	5	158
UK	4	119
France	0	25
Germany	2	23
China	3	38
Japan	1	37
Australia	1	21
Middle Eastern countries	7	63
Far Eastern countries	4	116
Other European countries	6	129
Other Asian countries	0	15
Other countries	2	94
Total	35	838



Progress on annual targets

Enforcement Department

Targets

- Oversight of companies' through review of information filed
- Timely disposal of applications/complaints
- Corporate education through guidelines and public alerts
- Make regulatory framework(s) in line with best practices

Achievements

- Examined 1,368 accounts, 522 cases initiated, 463 cases concluded
- Prepared concept paper for improving filing ratio of non-listed companies
- Granted 327 regulatory approvals to companies
- Resolved 185 investor complaints
- Issued guide for members meetings and resolution
- Issued clarification on filing of 'revised annual audited accounts' by non-listed companies
- Proposed amendments to the existing 1996 Employees Provident Fund (Investment in Listed Securities) Rules
- Notified amendments to the Fourth and Fifth Schedules to the 1984 Companies Ordinance
- Development of regulatory framework for valuers in coordination with SBP
- Voluntary CSR Guidelines issued
- Prepared a way forward for the protection and reward for whistleblowers
- Notified mandatory requirement of maintenance of website by non-listed companies having paid up capital of Rs200 million and above

Highlights

- Voluntary CSR Guidelines issued
- Notified mandatory requirement of maintenance of website by non-listed companies
- Shareholders/members general meeting guidelines
- Industry specific cost accounting orders
- 463 cases were concluded with fines and stern warnings
- 327 approvals granted

Targets

- Effective SECP-ICAP coordination for improvement of auditing process and financial reporting standards
- Industry specific cost audit and QCR for cost auditors
- Corporate governance for non-listed companies

Achievements

- Secured representation on different committees of ICAP
- Devised outlines of audit oversight board
- Representation at QAB
- Development of cost accounting framework
- Notified cost accounting order for chemical/fertilizer and synthetic/rayon Industries
- Issued draft principles for corporate governance for non-listed companies



Enforcement Department

The Enforcement Department of the Company Law Division is responsible for ensuring compliance with the applicable corporate financial reporting framework by the listed companies, public non-listed companies, private limited companies having paid-up capital of Rs7.5 million or more, companies formed under sections 42 and 43 of the 1984 Companies Ordinance (except insurance companies, non-banking financial companies, modarabas, and stock exchanges) and their statutory auditors.

Performance review

The department continued to perform well and achieved very good results during the year under review in an increasingly complex and large corporate sector. The enforcement actions covered the full spectrum of the ordinance and other enabling statutes. The department also scrutinized various applications of companies and accorded approvals and relaxation from certain provisions of laws and rules in cases where the requisite conditions had been met.

Enforcement actions taken under different statutes 2012-13					
Particulars	Companies Ordinance, 1984	Take-over Ordinance	Capital Issue Rules	Cost Audit Rules	Total
Cases initiated	505	4	2	11	522
Cases concluded	450	3	-	10	463

Facilitation and regulatory approvals

1. Schemes of arrangements

The SECP has been facilitating companies to strengthen their capital base and to achieve economies of scale in their businesses. The consolidation within the corporate sector enhances an entity's capacity to deal with the systemic risk and to meet global challenges. The department ensures that the schemes of arrangement proposed by the companies do not harm the interests of minority shareholders.

The department reviewed 9 schemes of arrangements of listed and non-listed companies and provided comments to the courts.

2. Issue of Capital (Listed Companies)

The provisions of the ordinance allow companies to raise further capital by way of right issues without the SECP's approval. However, if companies desire to issue right shares more than once a year or raise their capital without the offer of right shares to existing shareholders, they are required to obtain permission from the SECP. During the year, the department received 34 applications for further issuance of capital. These applications were disposed of as described below:

- **Issue of shares otherwise than right**

The provisions of the ordinance stipulate that a public company can raise further capital without issue of right shares after getting the federal government's permission. In this regard, 6 companies approached the SECP during the year, seeking permission to issue shares otherwise than right shares. Four companies were allowed to issue shares as per their applications.

- **Issue of preference shares**

Any company limited by shares can issue more than one type of shares having different rights and privileges under the ordinance. During the year, 6 listed companies approached the SECP with applications for issue of preference shares to existing shareholders. The SECP allowed 4 companies to issue preference shares.

- **Issue of share at discount**

Four cases relating to issue of shares at discount was received. Approvals in 3 cases were granted during the year, whereas further information has been sought in 1 instance.

- **Relaxation of rules**

The SECP has been authorized by the federal government to relax the requirements of certain laws upon application from companies, if considered appropriate. In this context 10 listed companies



applied for relaxation from the requirements of the 1996 Companies (Issue of Capital) Rules, during the year. The SECP after comprehensive examination and keeping in view the circumstances of the cases relaxed the requirements of law for 8 companies enabling them to raise capital whereas remaining 2 applications are under consideration.

3. Appointment of cost auditors

The appointment of 52 cost auditors in the matter of listed companies was approved under the 1998 Companies (Audit of Cost Accounts) Rules, in respect of industries including vegetable ghee and cooking oil, sugar and cement.

4. Relaxation under S.R.O 831(1) of 2010

Relaxation from mandatory bearing of computerized national identity card (CNIC) number on dividend warrants under S.R.O. 831(1) of 2012 was provided to 122 listed companies.

5. Extension in time to hold annual general meeting

Extension in time to hold annual general meetings was granted to 43 listed companies. Four companies were allowed to hold their AGMs at locations other than their registered offices as per relaxation provided in the ordinance.

6. Exemptions from preparation and filing the consolidated accounts

The exemption from filing the consolidated accounts along with the standalone accounts was provided to 23 companies.

7. Approvals for extension of loan to directors of a company

Three listed companies were granted approval to extend the facilities of loan and advance house rent to their directors.

8. Group companies registration

The SECP issued certificate of registration to 6 companies as a group under the 2008 Group Companies Registration Regulations.

9. Placement of quarterly accounts on website

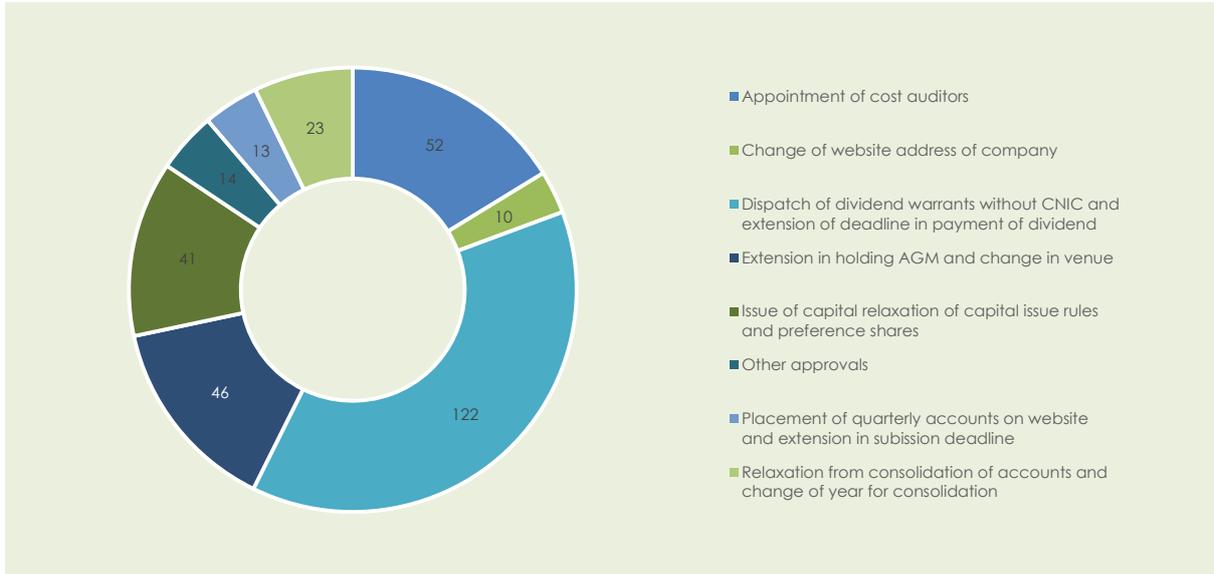
During the preceding year, 261 listed companies obtained the SECP's approval to place their quarterly accounts on their official websites instead of transmitting the same by post in order to ensure that the material information is available to shareholders, enabling them to make informed decisions. The total number of listed companies having such approval reached 274 during the year under review as 13 more companies obtained the approval. Ten companies were also allowed to change the addresses of their websites.

10. Applications under the 2002 Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Ordinance

A company applied for extension in time for making public announcement of offer for shares. The extension was subsequently granted in this regard.

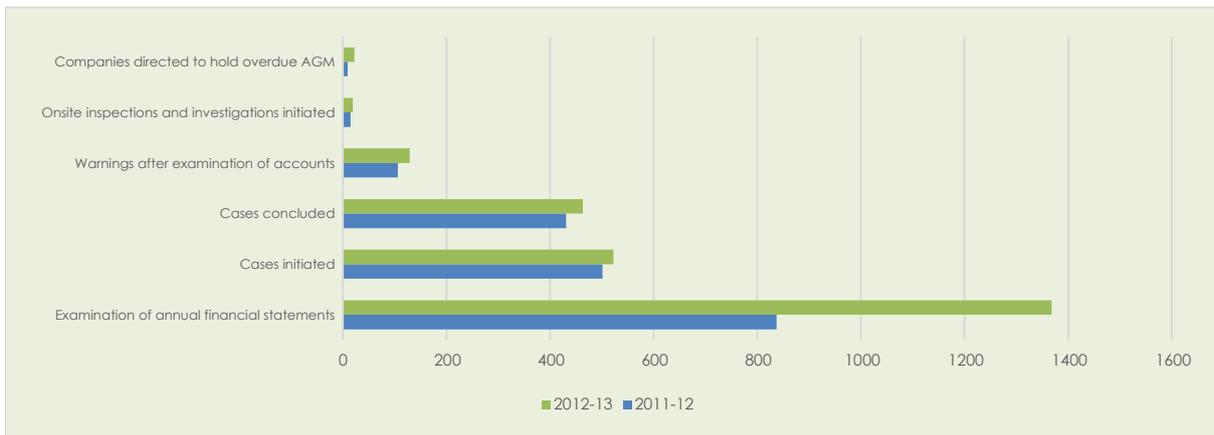
Monitoring and enforcement actions

During the year under review, 1,368 audited financial statements of listed and non-listed companies were examined and explanations with regard to various issues/violations observed during the examination/review of the audited financial statements were sought.



The breakdown of actions taken against the companies on account of various defaults is given as follows:

	2012-13	2011-12
Examination of annual financial statements	1,368	837
Violations observed	605	552
Cases initiated	522	501
Cases concluded	463	431
Warnings after examination of accounts	129	106
Onsite inspections and investigations initiated	29	15
Companies directed to hold overdue AGM	22	9



Inspection of companies' affairs

The SECP authorized onsite inspection of books, records and papers of 22 companies during the year under review as against 10 companies during the preceding year. The inspection proceedings against 9 companies were concluded within the period whereas proceedings initiated against other 13 companies are in process. The reasons of such actions primarily emanated from the instances including adverse audit opinions of statutory auditors in the audit reports, unauthorized inter-corporate financing, non-confirmation of the balance of assets and liabilities of the companies, improper payments made to foreign officials, non-repayment of loan installments, suspension of operations, payment of hefty advisory fee to a director of the company, contraventions and irregularities of the applicable regulatory framework and unauthorized disposal of fixed assets. Such inspections are fact-finding exercises done under section 231 of the ordinance to ascertain whether the books of accounts and books and papers of companies have been maintained properly.



Investigations

The ordinance empowers the SECP to investigate the affairs of companies if it so deems appropriate by appointing one or more competent person as inspectors. During the year under review, 7 investigation proceedings were initiated against the companies out of which 4 were against non-listed companies and 3 were related to listed companies. Investigation proceedings were initiated against the companies based on observations including but not limited to adverse and disclaimer of opinion by the statutory auditors, blatant misstatements by the companies, siphoning off funds of the company by the directors and company failure with regards to submission of requisite documents. One investigation proceeding was concluded and the SECP is in process of filing the criminal complaint against the directors of the company.

Inter-corporate financing

The SECP has continuously been trying to bring transparency and fair practices with regards to investments by the companies in their associated undertakings funded from shareholders' money. It has been observed that most of the investments made by companies in their associated undertakings without following the relevant applicable provisions of the law. The prevailing statute requires of a company to obtain approval through a special resolution by its general body for such investments.

The SECP vigilantly monitors inter-corporate financing between the associated companies to ensure that the transactions are made at arm's length and to curb the unauthorized utilization of funds by the management and sponsors of the companies for their own benefit. Cases were identified where investments were either made in associated companies without approval of shareholders or free of interest. During the year, 15 proceedings of unauthorized inter-corporate financing against the chief executives and directors of companies were concluded through penal actions and stern warnings.

Misuse of powers by directors

In order to promote better corporate governance practices and to safeguard the interest of shareholders, the SECP actively monitors the use of powers given by the ordinance to directors of a company and take appropriate actions where misuse of powers by the directors is identified. The proceedings against directors of 17 companies were concluded in this regard. Ten proceedings were concluded by imposing penalty while warnings were issued in 7 instances.

False/incorrect statements

The SECP has the mandate to take stringent actions against people responsible for submitting false/incorrect information. During the year under review, 45 instances were identified where companies submitted false/incorrect statutory information/documents to the SECP. Penalties were imposed in 26 cases while warnings for future compliance of the law were issued in 19 cases.

Non-submission of consolidated financial statements

The provisions of the ordinance require that the holding companies along with its standalone financial statements shall prepare and attach consolidated financial statements of the group. The proceedings were concluded against directors and officers of 12 companies, who failed to prepare and attach consolidated financial statements with their standalone annual audited financial statements as required under the ordinance. Eight proceedings were concluded with penalty while in 4 instances the proceedings were concluded with stern warnings.

Delayed or non-payment of provident fund

The ordinance provides that the companies/trusts shall deposit the contribution of the employer and employees provident fund in a separate bank account within the prescribed time. Additionally, the 1996 Employee's Provident Fund (Investment in Listed Securities) Rules formulated under the ordinance prescribes the types of investments into which this money should be invested.

The department concluded 13 proceedings against directors of companies and trustees of provident fund trusts for violating the provisions of the ordinance and rules formulated for this purpose. Penalties were imposed in 8 cases while strict warnings were issued in 7 cases after obtaining assurance of future compliance with the ordinance and the rules.



Surplus arising out of revaluation of fixed assets

The provisions of the ordinance clearly set out the procedure for the treatment of surplus arising out of revaluation of fixed assets. In this context, 5 cases against the directors of the companies were concluded during the year under review wherein, the companies failed to transfer an amount equal to incremental depreciation from surplus on revaluation of fixed assets to un-appropriated profit/ accumulated loss through statement of changes in equity to record realization of surplus to the extent of the incremental depreciation charge for the period. Penalties were imposed in all 5 cases.

Irregularities in utilization of security deposits

The companies are restrained from utilizing any money received as security or deposit, except in accordance with a contract in writing; and deposit or keep all the money so received in a special account with a scheduled bank. The proceedings against 22 companies were concluded for violation of the aforesaid provisions of the law wherein, penalties were imposed in 11 cases while stern warnings were issued to chief executives and directors of 11 companies after obtaining assurance of future compliance with the law.

Authentication of balance sheet

The ordinance requires of directors and chief executive of the companies to authenticate the balance sheet and profit and loss account in a specified manner. Twenty proceedings were concluded against the directors of companies wherein they failed to authenticate the balance sheet and profit and loss account in accordance with the provisions of the law. Sixteen proceedings were finalized with imposition of the penalty while warnings were issued in 4 cases.

Improper issue, circulation or publication of balance sheet or profit-and-loss account

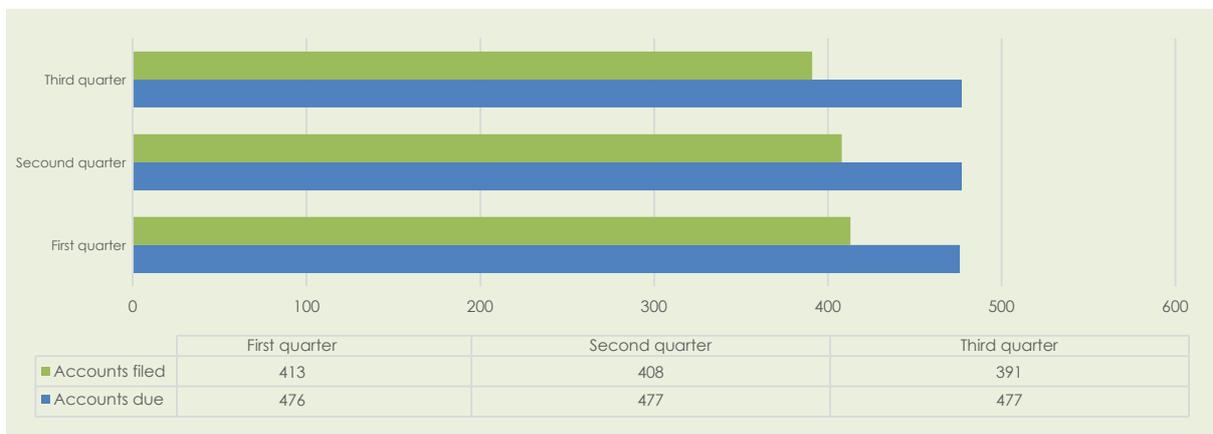
After reviewing annual audited accounts filed by the companies to ensure their completeness, the SECP initiated appropriate proceedings where complete set of financial statements were not filed by the companies; 118 proceedings were concluded during the year.

The penalties were imposed in 78 cases, while 40 cases were concluded by issuing stern warnings after obtaining assurance of meticulous compliance with the applicable provisions of the law in future.

Circulation of quarterly accounts

The listed companies are required to file their quarterly accounts with the registrar and the SECP in a prescribed manner. The untiring efforts of the SECP with regard to improvement of compliance level relating to filing of accounts by the companies is paying off as the compliance level has reached 85%. A total of 1,212 quarterly accounts were received out of 1,430 accounts.

During the year, 31 proceedings were concluded against the directors of listed companies that failed to file their quarterly accounts within the prescribed time period. Penalties were imposed in 21 proceedings, whereas 10 proceedings were concluded with stern warnings.





Non/late-holding of annual general meetings

The AGM provides a forum to the shareholders of the company to participate in the affairs of the company and to consider and approve significant matters relating to the management and performance of the company, including approval of annual accounts, declaration of dividend, appointment of auditors, and election of directors etc. Considering the importance of the shareholders' meetings and in view of its duty to protect shareholders' rights, the department pays special attention to ensure that AGMs are held in a timely manner so that the shareholders are able to exercise their voting rights at general meetings on all important issues.

The department therefore, takes a strict view of non-holding of shareholders' annual general meetings of the listed companies. During the year under review, 14 instances were observed and proceedings were initiated where companies failed to hold the AGMs within the prescribed time period. Eight proceedings have been concluded where penalties were imposed in 5 instances while warnings were issued in 3 cases.

During the year under review, the SECP issued directions to 22 companies to hold their overdue AGMs. In addition, 7 proceedings were initiated against companies who failed to comply with the direction to conduct AGMs within the prescribed period. Penalties were been imposed in 6 instances while warning has been issued to 1 company.

Meetings of board of directors and disclosure of interest

Proceedings against directors of 8 companies were initiated for their failure to comply with the mandatory provisions of the ordinance regarding disclosure of interest, quorum of meeting, participation in board meeting where a business in which directors have interest is being considered. Five proceedings were concluded and penalty was imposed in all cases.

In addition, the directors of a company are required under the ordinance to disclose their interest in a contract or agreement at a meeting of the directors. Six proceedings were concluded against the directors of companies by imposing penalties for breaching the relevant provisions of the ordinance.

The ordinance requires of companies to disclose members or directors' interest in contracts appointing chief executives, managing agents or secretaries in the Director's report. In this context proceedings against 11 companies were concluded that failed to abide by the provisions of the law regarding the disclosure of terms of appointment of the chief executive or contract or variation thereof in the directors' report as well as circulation of the same to the shareholders. Six proceedings initiated in this regard were concluded with penalties whereas 5 other cases were concluded with warnings.

Non-holding of election of directors

Companies are required by law to elect the directors in a general meeting within a stipulated time. The SECP ensures compliance by the companies with the procedures laid down for the election of directors and takes cognizance if companies fail to abide by the relevant provisions of the ordinance.

During the year under review, 3 proceedings were initiated where the companies did not hold election of directors within the stipulated time. Two proceeding were closed by imposing penalties whereas, one proceeding was concluded with stern warning.

Penalty for carrying out ultra vires business

The proceedings were concluded with a penalty in a case in which chief executive of a company was engaged in a business which was ultra vires of the business of the company.

Late filing of cost audit report and non-submission of applications by companies for appointment of cost auditors

Companies engaged in the business of vegetable ghee and cooking oil, sugar and cement industries are required by law to prepare and file the duly audited cost accounts with the SECP. The aforesaid companies are required to obtain prior approval of the SECP for the appointment of cost auditor.

Ten proceedings were concluded against listed companies during the year under review against the violation of the law with penalties being imposed in 6 instances while stern warnings were issued in 4 instances.



Enforcing compliance with the provisions of the ordinance

The ordinance has empowered the SECP to direct any company and any officer of the company, as the case may be, to make good on the default or undo any irregularity/violation of any provision of the law which has been observed by the SECP. In this context, proceedings against 6 companies were concluded during the year. Directions were issued to 4 companies while in 2 instances proceedings were concluded with warning.

Actions under Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Ordinance, 2002

The SECP actively monitors the transactions relating to substantial acquisition of shares of listed companies with a view to provide a fair and equal treatment to all investors as well as a transparent and efficient system for substantial acquisition of voting shares and takeovers of listed companies. In doing so, the SECP initiated actions against companies which were in violation of the provisions of the Takeover Ordinance. During the year under review, 7 non-compliances with the provisions of the Takeover Ordinance were concluded. Three proceedings were concluded with penalties while warning was issued in 4 instances.

Winding up of companies

The SECP, in exercise of its powers under the ordinance, may issue winding up orders to the registrar of companies in specified circumstances. In this context, winding up orders have been issued against 3 companies.

Investors' grievances

The SECP encourages the stakeholders to voice their concerns/complaints and blow the whistle where possible violations/contravention of law by the management of any company is observed. Therefore, the investors' grievances are considered and addressed on priority and in a timely manner by the SECP in order to safeguard their interest.

During the year, 185 complaints from various shareholders were resolved. They were mainly related to non-receipt and non-encashment of dividend warrants, delay/non-transfer of shares and issuance of duplicate shares, non-receipt of annual and interim accounts, inappropriate deduction of zakat and related to other miscellaneous matters including non-holding of AGM, non-circulation of notice of meeting etc. Immediate and appropriate actions were taken on all such complaints received.

The table hereunder summarizes the status of complaints outstanding at the beginning of the year, those received and those that resolved during the year and remained in progress during the year under review:

Complaints status 2012-13	
In progress at start of the period	17
Received during the period	249
In progress at the end of the period	55
Total complaints resolved	185

Application for revision and review of orders

The ordinance provides opportunity to an aggrieved person/party who is dissatisfied with the outcome of legal proceedings concluded by the SECP. An application in this regard can be filed for revision/review of the order issued. Nine applications for revision of orders were received wherein revision of 2 applications were successful whereas 7 applications were rejected and the orders were upheld.

Actions against auditors

The auditors being one of the custodians of the shareholders' interest are required to give their opinions on the truth and fairness of the financial statements after conducting the audit in accordance with the applicable laws. The stakeholders are the ultimate users of the financial statements and auditors are required to keep this fact in mind while fulfilling their duties. The auditors are expected to perform their statutory role diligently and restrain themselves from performing their duties indulgently.



However, during the year under review, 66 instances were identified where auditors failed to perform their statutory function as per the provisions of the law. The department took appropriate actions against these non-compliances with the statute by the statutory auditors of the company and concluded the cases accordingly.

The department has also finalized proceedings against auditors of 2 listed companies who were not qualified for appointment in terms of requirements of the Code of Corporate Governance (CCG). The CCG requires of listed companies to appoint only those auditors, who have been given a satisfactory rating under the Quality Control Review (QCR) Program of the ICAP.

The ordinance also sets out the eligibility criteria for appointment of statutory auditors of companies. The SECP has observed 3 instances wherein companies have appointed unqualified persons as their statutory auditors. Two proceedings have been concluded and companies have been penalized for not appointing the auditors in accordance with the requirements of the law.

In order to address the issue where the auditors deny having audited the accounts filed by the companies with the registrar, instructions were issued to all Company Registration Offices (CROs) through the Corporatization and Compliance Department to ensure compliance with section 253(5) of the ordinance with regard to filing of the consent letters of auditors upon their appointment by companies.

Developmental activities

In addition to its routine tasks, the department has sought to meet the dynamic needs of the future. During the year under review, the department has actively been involved in development activities which include development of new rules/regulations and laws and revamping of the existing statutes. The summary of developmental activities carried out during the year under review is given hereunder:

Provident Fund Rules, 2013

The department proposed certain amendments to the existing Employees Provident Fund (Investment in Listed Securities) Rules, 1996, keeping in view, the analysis of the data obtained from various companies belonging to different sectors and complaints received from employees of various companies regarding losses they suffered due to investments made by the provident fund/trust in contrary to the provisions of the rules. The commission in its meeting held on November 3, 2011, formulated a committee to review the proposed amendments and finalize the recommendations. The committee after much deliberation and in the light of discussion held during its meetings proposed to formulate new provident fund rules. The duly vetted new draft rules were approved by the commission in its meeting on May 3, 2013, and were submitted to the Ministry of Finance for its comments and onward submission for public comments.

Principles for corporate governance for non-listed companies

In order to promote transparent and accountable corporate governance practices in non-listed companies, the SECP has issued draft Principles of Corporate Governance for stakeholders' comments. These principles have been formulated in line with the best international practices keeping in view the domestic corporate environment. Empirical evidence gathered in the form of numerous research reports supports the idea that there is a correlation between adopting the basic principles of corporate governance, namely fairness, transparency, accountability, responsibility, organization's performance and competitiveness.

Companies following good corporate governance principles may benefit from higher valuations, improved profitability, and may gain broader access to external financing than their poorly-governed peers. In broader perspective, good corporate governance may assist Pakistan by yielding higher investment and capital formation from local and foreign investors, and reduce economic vulnerability to financial crisis. Improved corporate governance practices may also assist non-listed companies that are looking to be listed on stock exchanges.

In the recent past, the SECP introduced the Code of Corporate Governance (CCG), which focuses only on listed companies. The non-listed companies constitute the bulk of businesses in Pakistan. About 60,000 non-listed companies are registered with the SECP compared to nearly 569 companies listed on the country's stock exchanges. Recognizing the significance of non-listed companies to the national economy, the Principles of Corporate Governance have been formulated to extract the potential of improved corporate governance practices in the non-listed segment.



Thirteen principles of good governance have been presented on the basis of a dynamic phased approach, which takes into account the degree of openness, size, complexity and level of maturity of individual companies. The non-listed companies can extract from this stepwise approach useful guidelines to promote their sustainability, to bring external parties to their boards, to attract funds, and to solve issues between shareholders.

Revised qualifying criteria for non-listed companies

On the initiative of the department, certain amendments to the qualifying criteria for classifying non-listed companies as Economically Significant Entities (ESE's), Medium Sized Entities (MSE's) and Small Sized Entities (SSE's) were proposed and a subcommittee consisting of members from the ICAP and the SECP was formed for this purpose.

Clarification on filing of 'revised annual audited accounts' by non-listed companies

Circular No 7 of 2013 was issued on May 23, 2013, for clarification of non-listed companies that revise their annual audited accounts, which are already filed with the registrar, and file these as 'revised annual audited accounts' for the same financial year. This had resulted in filing of more than one set of accounts in the record of the registrar for financial year.

As per the applicable provisions of the ordinance, any document required to be filed with the registrar can only be revised by the companies if the registrar requires so. It was also clarified in the circular that the revision of annual audited accounts, on discovery of errors, is not allowed as per the provisions of law. However, the same has to be rectified in subsequent period accounts according to the provisions of approved accounting standards as applicable in Pakistan.

Audit oversight board

A joint committee comprising representatives from the ICAP and the SECP has been formed to consider and deliberate upon the concept of independent oversight of the audit profession to enhance quality of audit through effective functioning of the audit profession. The committee has agreed on the need to form an independent body, Audit Oversight Board of Pakistan, for regulation of the audit profession. The committee has, after a series of meetings, devised the outline of the proposed board. However, the primary question as to the most appropriate enabling legal provisions for accomplishment of this objective needs to be determined. The legal opinion in this regard has been solicited from reputed law firms.

Amendments to the Fourth and Fifth Schedules

The provisions of the Fourth and Fifth Schedules to the ordinance have been amended to bring them in line with the requirements of International Financial Reporting Standards to enhance quality of financial statement disclosures.

Hearing of cases through videoconference

In the interest of regulated entities, the SECP has provided them an option of attending hearings before its adjudicating officers, through video link facilities, on the basis of a written consent. By allowing hearings through videoconference facility at relevant CROs linked to the SECP's head office, the regulated entities will not have to incur travelling expenses while pursuing their cases before the SECP.

Summary of Draft Electric Power Generation Industry (Cost Accounting Records) Order, 2012

The SECP had granted approval for publication of the Draft Electric Power Generation Industry (Cost Accounting Records) Order, 2012, in the official gazette to elicit public/stakeholders' opinion primarily on suggestion of the National Electric Power Regulatory Authority (NEPRA) to enhance the scope of its earlier draft Thermal Energy (Cost Accounting Records) Order, 2011, notified vide S.R.O. 1019/(I)/2011, which was published on November 11, 2011.

The SECP sought stakeholders' comments in this regard. Consequently, thermal power producing companies along with NEPRA, ICAP, and PPIB submitted their comments. In addition, roundtable meetings were conducted at the SECP's head office in Islamabad, and its regional offices in Islamabad, Karachi and Lahore to listen to stakeholders in person.

The order in this regard has been published for gathering stakeholders' comments.



Cost accounting standards

The first accounting standard has been developed in this context and was presented before the subcommittee of the ICMAP and ICAP. It was agreed that, before drafting all cost accounting standards, cost accounting framework shall be developed. The ICMAP has volunteered to develop the same. The ICAP has volunteered to draft an auditing framework for cost audit.

Corporate social responsibility guidelines

The SECP had come up with a draft of the Corporate Social Responsibility Guidelines for companies for public comments. As a follow-up, the SECP held a roundtable on the guidelines on December 5, 2012 in Islamabad. The roundtable discussion led by Mr. Tahir Mahmood, the acting SECP chairman, was attended by participants from public companies, professional institutions, research institutions and NGOs actively involved in CSR projects. The SECP representatives discussed the intent of introducing the said guidelines, i.e. the need to define broad parameters of reporting for companies engaged in diverse areas of interest in CSR. These guidelines shall provide a framework that emphasize on formulation of policy with respect to CSR activities providing broad indicators, structure of implementation, periodic monitoring mechanism and comprehensive disclosures.

It was stressed that ownership of strategic policy for planning, execution and reporting CSR activities however shall rest with board of directors. During the discussion, participants of roundtable endorsed the SECP's efforts and intent for introducing guidelines and debated the need for defining criteria for independent assurer, framework for independent assurance, involvement of shareholders in CSR spending and formation of a unified CSR consultative forum. It was mutually agreed that deliberations shall be made for forming a unified CSR forum, with the SECP acting as a facilitator, that shall have the mandate of raising awareness among businesses regarding CSR issues and proposing improvement in current CSR regulatory framework in view of best international practices.

Guide for members meetings and resolution

A guide regarding members meetings and resolution was issued. The guide contains FAQs and their answers which provide guidance regarding members meetings in line with the relevant provisions of the Ordinance. Templates of various resolutions have been added through appropriate illustrations for the ease of understanding which may be used by the companies while drafting resolutions to be passed in general meetings. The printed version of the guide was issued to 450 listed companies and is available on the SECP's website.

Mandatory maintenance of website by non-listed companies

During the year, the department issued a notification requiring the non-listed companies having paid-up capital equal to or more than Rs200 million to maintain mandatory websites. This notification was aimed at improved disclosures by these companies, swift dissemination of information and to assist stakeholders to take timely decisions.

Concept paper for improving filing ratio of non-listed companies

A concept paper was prepared which contained the information regarding current filing percentage of the non-listed companies and the steps/measures as to how the filing ratio can be improved. The steps/activities that have already been completed with the coordination of the C&CD for improving filing ratio include:

- **Media campaign:** This included tickers on the SECP's website, tickers and advertisement on the electronic media and advertisement in the print media.
- **Reminders:** This included reminders through letters, i.e. first, second and final reminder on specific dates and through sub-fields on the SECP's website created for this purpose.
- **ICAP:** The ICAP was taken on board in this regard. They were asked to circulate the reminders being prepared by the SECP to their practicing members and for information and onward circulation to their clients.
- **Filing alerts on the SECP's website:** Filing alerts were created on the SECP's website.



- **Standees:** Standing sign boards were prepared and displayed on the floors of the SECP and CROs for awareness of companies.
- **Survey questionnaire:** A survey questionnaire was prepared and submitted to companies through the CROs in order to seek feedback from the companies regarding the current filing requirements and how the filing ratio can be improved. The department is in the process of compiling the feedback received from companies in this regard.

Concept paper for real estate regulatory authority

The real estate sector is fastest growing segment of our country's economy yet it has been left unregulated. Land developers, intermediaries and real estate agents, at large, are not governed by any specific law or governing body as such. Moreover, our conventional land records system is not fulfilling the changing demands of time. Considering the aforesaid issues and recognizing the importance of real estate in our economy the SECP has taken an initiative to prepare a concept paper on the subject matter.

The focus of this paper is identification of the issues and constraints faced by the real estate sector in Pakistan, study of international jurisdictions and highlighting the need of regulatory set up for transparent registration and effective regulation of real estate sector in the country.

Whistleblowing laws

An act for the protection and reward for whistleblowers has been drafted and submitted for legal vetting. The proposed act aims at establishing and implementing a mechanism to provide protection to persons reporting wrongdoings of the management from any kind of reprisal. Besides, prescribing an internal whistleblowing program at the company's level, the proposed act is more focused on an external whistleblowing mechanism which is important from regulator's perspective.

Regulations for reverse merger

In order to protect the shareholders interest of listed companies which are acquired by non-listed/private companies under a scheme of arrangement/amalgamation the department, in coordination with C&CD, LL&GCD and SMD has proposed regulations to be introduced through listing regulations. Final draft is being forwarded to the SMD for further action in this regard.

Future plans

The strategic plans of the department include, fostering and enforcing compliance with the applicable statute, establishing and effective regulatory environment and facilitating access to the information investors needs to make informed decisions. In order to achieve the above, the future plans of the department include the following activities:

Amendments to the 1984 Companies Ordinance

The amendments to the ordinance will be proposed for inclusion in the proposed Companies (Amendments) Bill, 2013. They will also cover suggestions for improvements in the existing provisions as well as introduction of new regulatory areas for facilitation of shareholders and removal of practical problems.

Treatment of unclaimed dividend

The law requires of companies to pay dividend, once they are declared, to shareholders. However, it may be widely observed that listed companies have accumulated substantial amount of unclaimed dividends owed to shareholders due to various reasons. In addition, existing legal framework does not provide any treatment for such unclaimed monies of shareholders. The department after studying present scheme of law as well as legislations on the treatment of unclaimed dividends in other jurisdictions, in consultation with the Litigation, Legislation and General Counsel Division (LL&GCD) has proposed amendments to Table A of First Schedule to the ordinance. The final draft has been submitted to the LL&GCD for review.



Introduction of legal framework for registration and quality assurance of valuers

On a proposal initiated by the department, the State Bank has agreed to make a joint forum for valuers comprising representatives of the SECP and SBP. The department, along the lines of discussions held with the SBP, has also proposed legislation for regulation of valuer's profession. The draft Valuers Act is being reviewed by the LL&GCD.

Videoconferencing at AGMs

In order to embed the use of contemporary technologies to facilitate corporate sector, the department has introduced the concept of videoconferencing for listed companies to make voting process at members' general meetings more effective. The videoconferencing has helped companies to achieve more efficiency, transparency and democracy in the decision-making process implemented at general meetings globally. This process shall not replace the process of physical voting, however, shall provide another channel for shareholders to exercise their voting right. This mode of voting shall also lead to increase in the number of shareholders to participate in the general meetings and increase the number of votes being casted to make a decision.

IFRS for SMEs

The ICAP has recommended notifying the International Financial Reporting Standards for Small and Medium Sized Entities (IFRS for SMEs) under the relevant provisions of the ordinance and making it effective for all medium sized companies for annual periods beginning on or after January 1, 2013. In this regard, the SECP is seeking comments of the ICAP, before adoption of IFRS for SMEs on the proposed amendments to the Fifth Schedule to the ordinance.

Development of industry specific cost accounting records

In pursuance to its objective to develop industry specific cost accounting records, the department plans to promulgate Cost Accounting Records orders for 4 industries, i.e. motor vehicles, pharmaceuticals, synthetic and rayon, and power generation.

Concept paper on dormant company regime

The objective of introduction of dormancy regime is to allow relaxation to listed companies from review requirements and filing of quarterly accounts. This regime is applicable to only those companies which are in dormancy phase, having halted or in partial operations and finding it difficult to get review of quarterly accounts. This regime is necessary to relax adjudications control against such companies and to avoid the waste of the SECP's resources.

For this purpose, international jurisdictions have been studied. Many jurisdictions allow exemptions from audit and filing requirements to such companies. The subject regime has been introduced in the primary laws of such jurisdictions.

At present, the existing ordinance does not provide any relaxation to dormant companies. Therefore, the matter is being forwarded to the Corporate Law Review Commission (CLRC) for its consideration and to introduce this concept in the ordinance.

Guidelines on going concern

It has been noted while reviewing audited accounts of companies, that going concern reporting is one of the most critical financial reporting areas which is not given due weightage by the companies and the auditors. In larger, number of cases of insufficient disclosures in financial statements regarding going concern and inappropriate reporting by the auditors on this important issue have been noted. Therefore the SECP intends to issue guidelines for companies, by compiling the requirements of accounting, auditing standards and the ordinance, assisting directors in performing going concern assessment and making appropriate reporting in this regard in the financial statements and their report to members.



Guidelines on directors' disclosure of interest

The department is in the process of formulating guidelines for disclosure of interest by the directors in the transactions and arrangements by the companies. The purpose of the guidelines is to promote awareness and facilitate understanding of importance of disclosure of interests and concerns by the interest directors in accordance with the provisions of sections 214, 215, 216, 218 and 219 of the ordinance that contain provisions in this regards.

Merger guidelines

The department has drafted the Guidelines on Compromise, Arrangement and Reconstruction. These guidelines are being prepared for the assistance of the stakeholders and to avoid any variances in the process amongst the stakeholder. The Commission has initially circulated these guidelines to ICAP for its comments, which will further be circulated to all the other stakeholders for their comments.



Securities Market Division



Market Supervision and Registration Department (SMD)

Imran Inayat Butt (Director/HOD) with Hasnat Ahmed, Tahir Mahmood Kiyani, Amir M. Khan Afridi, Muhammad Farooq Bhatti, Saima Shafi Rana, Nazish Zubair, Najia Ubaid and Hina Gul.



Policy, Regulation and Development Department (SMD)

Imran Iqbal Panjwani (ED/HOD) with Aamir Yaqoob, Waqar Ali, Sajjad Ali, Atif Hameed, Tariq Naseem, Aoun Abbas Zaidi, Benazir Nasir and Tayyaba Nisar.



Progress on annual targets

Market Supervision and Registration Department

Targets

- Development of rules and regulations
- Revamp and amend the regulatory framework
- Onsite and offsite inspections
- Review and analysis of offsite reports received from NCCPL, CDC and exchanges

Achievements

- As an ongoing practice, various guidelines are being formulated to streamline the operations of capital market in line with the best international standards.
- Onsite inspections of the brokers registered with the SECP and offsite inspections of the stock exchanges and the Central Depository Company are being carried out.
- Significant improvements in the current processes and procedures have been witnessed. The automation project includes development of online filing of registration and renewal application by the broker and financial reporting system for brokers.
- Onsite inspections of 21 brokerage houses completed.
- Reviewed 81 system audit reports received from stock exchanges and communicated observations to respective exchanges.
- Inspection reports were reviewed received from CDC, NCCPL and exchanges and observations were communicated accordingly.

Highlights

- Ninety-one orders were issued for non-compliances pertaining to insider trading, front running, wash trades, blank sales, short sales, price manipulation, provision of false information and late filing of beneficial ownership returns.
- Eighty-six warning letters were issued to curb non-compliances and to increase the transparency and efficiency of the capital market.
- Registered 250 brokers and 282 agents working in the three stock exchanges.
- Registered 199 brokers of the Pakistan Mercantile Exchange.
- Thirty-four investors' complaints were handled in addition to the handling of matters pertaining to the expelled/suspended members of the stock exchanges.

Targets

- Monitoring and surveillance of the trading activities in the stock market
- Examination of returns of beneficial ownership
- Registration and renewal of the brokers and agents of the stock market
- Handling of investors' complaints

Achievements

- In order to increase transparency and efficiency of the capital market, activities leading to market manipulation were identified; investigations/enquiries were conducted and enforcement actions were taken.
- Filing of returns in change of beneficial ownership by the listed companies and their beneficial owners is monitored and enforcement actions on non-compliances were initiated and finalized.
- Reviewed registration and renewal applications and issued registration certificates to 250 brokers and 282 agents working in the stock market.
- Efficiently handled various complaints received from investors against registered brokers and the expelled members of stock exchanges.



Securities Market Division

The Securities Market Division (SMD) is responsible for monitoring, regulating and developing the securities market. It regulates the primary and secondary markets as well as market intermediaries through registration, surveillance, investigation, enforcement and rule making, with the objective of protecting investors' interest. SMD also processes and grants approvals to prospectuses for public offering of both debt and equity securities. In addition, it is entrusted with instituting appropriate regulatory reforms to develop and promote the market, engender investor confidence and instill transparency, effective risk management and good governance at the stock exchanges, Pakistan Mercantile Exchange, Central Depository Company and National Clearing Company.

The Securities Market Division has these 3 departments:

- Market Supervision and Registration Department
- Policy, Regulation and Development Department
- Special Initiatives Department

Market Supervision and Registration Department

Market Supervision and Registration Department (MSRD) plays a fundamental role in maintaining the market transparency and protecting the interests of investors. MSRD oversees the functions and conduct of the market intermediaries and trading activities at the stock exchanges.

The department is responsible for monitoring and vigilant surveillance of the trading activities at the three stock exchanges to ensure that market participants are not indulged in any abusive or manipulative practice. It keeps a close watch on price movements and turnover of scrips and detects cases of market manipulation, front running and insider trading and conducts detailed investigations and inquiries in such cases.

It also monitors the trading activities of specified officers and more than ten percent shareholders of all listed companies in order to protect the interest of small shareholders of the listed companies.

The department ensures the compliance of relevant rules and regulations by the stock exchanges and other market intermediaries to strengthen the market oversight and enforcement. It undertakes inspection of books and records of the members of the stock exchanges which entails a detailed and comprehensive review of policies, procedures and internal control systems, established to assure compliance with the rules and regulations and to assess financial health of the entity.

It is entrusted with registration of brokers and agents which establishes a direct regulatory nexus for ensuring investor protection. It also plays an instrumental role in ensuring effective redress of investor complaints and grievances, particularly those of small investors.

Market overview

The FY2012-2013 started with an impressive outlook. During the year, the stock market has set new trends in terms of market depth and growth. The KSE100 Index showed healthy performance (Graph 1). Numerous factors played a vital role in fueling the index pace. These factors included implementation of long-awaited Capital Gain Tax (CGT) rules, demutualization of the stock exchanges, considerable decline in the discount rate by the State Bank of Pakistan (SBP) which was brought down to single digit figure of 9.5%, substantial foreign interest in stocks and declining inflation rates. Furthermore, a politically stable environment and smooth transition of government helped to retain the interest of local as well as foreign investors intact.

The interest rate in Pakistan has seen a gradual decreasing trend since August 2012, which led to an increase in investment in the economy due to which the stock market showed a positive trend during the year. Further, the inflation rate also posted a gradual downward trend, which was positive news for the economy in general and investors in particular which was also one of the reasons the stock market showed such a bullish trend in the aforementioned period.



A total of 569 companies with a paid-up capital of Rs1,116.005 billion were listed at the Karachi Stock Exchange (KSE). The KSE100 index started with an upward trend in the start of the financial year. Starting from a level of 14,142.92 points the KSE100 continued its positive trend and touched ever high of 22,757.72 on June 13, 2013. The index closed at 21,005.69 points in June 28, 2013. The index has grown by 48.52% during the year. Likewise, the volumes remained at 210.633 million shares on a daily average basis which is approximately 54% higher as compared to the previous year.

The market capitalization stood at Rs5,154.737 billion at the end of June 2013 (Graph 2). It is noteworthy that owing to high trading activity in high-worth stocks the market capitalization has grown by 43% as compared to the start of the year. The stock market activity was fueled by massive foreign interest during the year. The foreign investment in the stock market exhibited net inflow of \$568.876 million.

Registration of brokers and agents

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

Brokers

At the end of financial year 2013, the total number of brokerage houses registered with the SECP stood at 250 as compared to 259 in the last financial year. It is pertinent to mention here that in accordance with the requirements of the 2012 Demutualization Act the individual TREC holder was required to convert into corporate entities by May 7, 2013. At present all the registered brokers are corporate entities.

The stock exchange-wise categorization of brokers is as follows:

Stock exchange	Brokers as of June 30, 2012	Addition during the year	Cancellation /expiry of registration	Total brokers as of June 30, 2013
KSE	131	9	11	129
LSE	75	10	13	72
ISE	53	3	7	49
Total	259	22	31	250

The KSE has 51% of the total brokers registered with the SECP as compared to 29% of LSE and 20% of ISE.

Agents

The statistics with respect to certificates granted to agents, stock exchange-wise as of June 30, 2013 are presented in the table below.

Stock exchanges	Number of agents as of June 30, 2012	Addition during the year	Cancellation /expiry of registration	Number of agents as of June 30, 2013
KSE	225	10	30	205
LSE	71	2	11	62
ISE	14	2	1	15
Total	310	14	42	282

Investor complaints

Quick resolution of investor complaints and grievances is an important instrument in restoring investor confidence. The details of complaints handled by the SECP during the year are presented in Table 4.



Regulatory actions

The compliance with the requirements of the 2001 Brokers and Agents Registration Rules was ensured and appropriate punitive measures were taken in cases of violations. During the year under review, the following enforcement actions have been taken against the brokers:

- The inspection report of the brokers has been reviewed and on the basis of violations intimated in the inspection reports, proceeding were initiated under section 22 of the 1969 Securities Ordinance and 14 orders were passed during the year under review.
- On observing the deficiencies and certain violations while processing the cases of registration/ renewal of PMEX broker under the 2005 Commodity Exchange and Futures Contracts Rules, one broker's certificate of registration has been suspended.
- On observing the deficiencies and certain violations while processing the cases of registration/ renewal of broker under the 2001 Brokers and Agents Registration Rules a penalty of Rs500,000 was imposed on a broker.
- Enquiries under section 21 of the 1969 Securities and Exchange Ordinance and section 29 of the 1997 Securities and Exchange Commission of Pakistan Act were conducted against the following brokerage companies:
 - Stock Master Securities (Pvt.) Limited
 - Muhammad Ahmed Nadeem Securities (Pvt.) Limited
 - Y.S. Securities and Services (Pvt.) Limited

The said cases were also referred to the National Accountability Bureau (NAB) for resolution of investors' claims

Monitoring and surveillance

As part of its mandate to develop an efficient, effective and transparent stock market and to inculcate integrity and fairness in the trading activity, the department has worked on a comprehensive strategy to identify any abusive, manipulative and irregular trading practice and took subsequent measures. The emphasis is placed on unrevealing more complex schemes of market abuse including insider trading, front running etc, which are really detrimental to investors' interests. Moreover, in order to ensure the orderly execution of the market operations, significant measures have also been taken.

In 26 violations of securities law, orders imposing penalties on the members of the stock exchanges and other stakeholders were issued. Similarly, in 34 instances of non-compliance with regulatory provisions warning letters were issued to the brokers of stock exchanges and individual investors.

The summary of the enforcement actions taken during the year is presented below:

Orders	
Violation	Number of cases
Insider trading/front-running	7
Brokers and Agents Registration Rules, 2001	5
Wash trades	2
Blank sales	4
Listing regulations	8
Total	26



Warning letters	
Violation	Number of cases
Wash trades	26
Blank sales	1
Listing regulations	7
Total	34

Monitoring of beneficial ownership

Trading activities of beneficial owners of listed companies are monitored through returns filed by them, prescribed information/annual returns filed by listed companies and trading data of stock exchanges. The primary objective of this monitoring is to detect the instances, where the beneficial owners have made gain by purchase and sale or sale and purchase of shares of issuer companies within a period of less than six months. The SECP received 2,209 returns during the period under review.

Enforcement actions

1. The actions under section 224 (4) of the Companies Ordinance (late filing of returns of beneficial ownership):

The returns of beneficial ownership and annual returns on Form A are required to be filed within the prescribed time limit. The following actions were taken, where the said returns were received with delay of more than 30 days:

Sr. No.	Category	Number of cases
1	Warning letters issued	52
2	Orders issued	51
3	Cases under process (show cause notices issued, but opportunity of personal hearing has yet to be provided)	02

2. The actions under section 224 (2) of the 1984 Companies Ordinance (Recovery of Tenderable Gain):

- The listed companies are required under section 224 (2) of the Companies Ordinance to raise demand, within the stipulated time limit, for recovery of gain made by their beneficial owners by purchase and sale or sale and purchase in less than 6 months. In order to monitor the matter effectively, the SECP has directed through Notification No S.R.O. 130 (I) 2013, of February 22, 2013, that the listed companies shall provide a copy of the demand raised in terms of section 224 (2) of the ordinance to the SECP simultaneously.
- The SECP due to dismissal of review petition filed against the judgment of the Supreme Court in the matter of civil appeal No 946/2004 has approved a revised procedure/enforcement mechanism for recovery of the aforesaid gain from beneficial owners of the listed companies.
- Subsequent to the approval of the revised enforcement mechanism, 10 cases were processed for recovery of gain to the tune of Rs70.325 million. The status of the said cases as of June 30, 2013, was as under:

Sr. No.	Category	Number of cases
1	Show cause notices issued (both the beneficial owners and the issuer companies)	02
2	Gain tendered to the issuer companies	02
3	Gain recovered by the SECP, pursuant to mechanism provided under section 224 (2) of the Companies Ordinance	01
4	Cases under process	05



Automation of processes

In order to facilitate the listed companies, in collaboration with IS&T Department of the SECP, a sub-project of eServices, enabling listed companies to file online prescribed additional information has been developed. The notification to be issued u/s 246 of the Companies Ordinance in this regard is being vetted.

Compliance and inspection

The compliance of relevant rules and regulations and effective monitoring is essential to strengthen the market oversight and enforcement. Moreover, in order to ensure compliance of relevant rules and regulations in all respect and at all levels, the department also ensure compliance with the following strategies:

- Onsite inspection
- Offsite reporting

Onsite inspection

A natural supplement to compliance is inspection. In order to ensure compliance with rules and regulations, the department initiated onsite inspection on a regular basis. In this regard, 26 inspection orders were issued, whereby inspection of 21 brokerage houses has been completed and Interim reports were submitted in the matter of 4 brokerage houses.

In this context till date 9 brokers and 7 auditors were penalized for irregularities in calculation of net capital balance and other respective laws whereas warning letters were issued to one brokerage house and two auditors. Moreover, during the period under review, 2 brokers were also penalized for non-provision of information.

During the course of inspections of the brokerage houses, various non-compliances with applicable laws and shortcomings on the part of the brokers/TREC-holders have been observed. The major irregularities include miscalculation and misinterpretation of the requirements regarding net capital balance (NCB) as prescribed in the Third Schedule read with Rule 2 (d) of the 1971 Securities and Exchange Rules and non-segregation of clients' assets.

In view of inconsistent approach on the part of brokers with regard to interpretation of the requirements prescribed in Third Schedule of the SECP rules and resulting miscalculation of the NCB and in the light of the queries and suggestions received from different market participants from time to time, the SECP deems it appropriate and expedient to issue certain clarifications in respect of Third Schedule of the SECP Rules in order to ensure clarity and consistency. In this regard guidelines and clarifications have been issued.

Offsite reporting

The offsite inspection mostly comprises of reporting, as per prescribed format and frequency to the SECP by the regulated entities. Such reports are assessed and analyzed to identify and provide compliance status, which may lead to identify potential high-risk areas.

- **Offsite reports of stock exchanges**

The offsite reports received from stock exchanges during the period were reviewed and SECP's observations were communicated to the stock exchanges.

- **Offsite reports of CDC**

The Central Depository Company (CDC) submits offsite reports to the SECP on a monthly basis. The monthly offsite reports received by the SECP were reviewed and observations in this regard were communicated to the CDC.



- **Offsite reports of NCCPL**

During the year the department reviewed rules and regulations of the National Clearing Company Private Limited (NCCPL) and prepared the forms for the initiation of offsite reporting, and initiated offsite reporting from November 2012. The SECP reviewed the NCCPL's offsite reports and communicated its observations to it.

- **Inspection reports of CDC**

The CDC conducts onsite inspection of its participants/stock exchange brokers and submits copies of its inspection report to the SECP on a regular basis. During the period under review, 115 inspection reports were reviewed and the SECP's observations in this regard were communicated to the CDC. During the period, the department reviewed the scope of the CDC inspection and suggested necessary changes. Accordingly, the CDC revised its scope of inspection.

- **System audit reports**

The system audit is also a regular feature to ensure compliance with rules and regulations. During the year, two ballots were conducted by all three stock exchanges for the selection of the brokers. The SECP reviewed the system audit reports of 81 brokerage houses, and communicated its observations to stock exchanges.

- **Offsite reports of PMEX**

The department conducted regulatory review of the PMEX for the initiation of the offsite reporting of the PMEX. The offsite reporting by PMEX is expected to start in July 2013.

- **Enquiry under Section 21 of the 1969 Securities and Exchange Ordinance**

Enquiry reports in the matter of Ismail Abdul Shakoor Securities (Private) Limited and Durvesh Securities (Private) Limited were completed during the period under review.

Future Plans

Regulations for research analysts

The research reports are a regular feature of the capital market. Regulating the activities of research analysts and persons disseminating investment recommendations is essential for efficient functioning of the securities markets. The research, analysis and insight offered by such professionals to their clients in particular and the overall investing public in general should necessarily follow a set of procedures and policies to bring homogeneity and enhance integrity in the process to instill overall investor confidence. In this regard, the development of a set of regulations is underway to govern the activities of research analysts and persons disseminating investment recommendations.

Securities market regulations

The Regulations of Business Conduct for Trading/Investment Practices are being formulated. These regulations are intended to enhance the control structure and policies of market intermediaries and financial institutions and is based on the essence that market participants and financial institutions should engage in trading/investment practices with the principles of good faith and fair business conduct following equitable business practices in order to ensure the regular operation of stock market and best possible protection of customers' interests.

Development of surveillance system for commodity market

Being an integral part of the capital market, the commodity market is growing at a fast pace and proper surveillance and monitoring of the same is essential to protect the interest of investors and ensure its transparent operations. Therefore, the SECP intends to develop a thorough surveillance system for the trading being generated at the PMEX.



Deployment of surveillance system at the stock exchanges

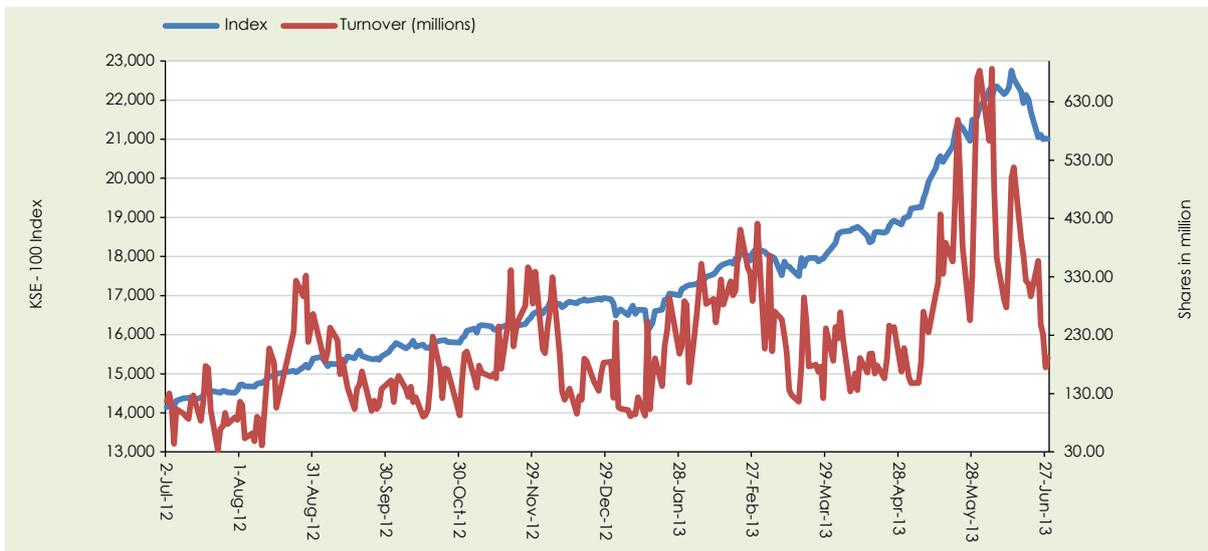
In order to enhance effective monitoring and surveillance on the part of frontline regulators and inculcate a sense of responsibility for a better oversight of market operations, the SECP intends to deploy the in-house surveillance system to the exchanges.

Compliance with regulatory framework

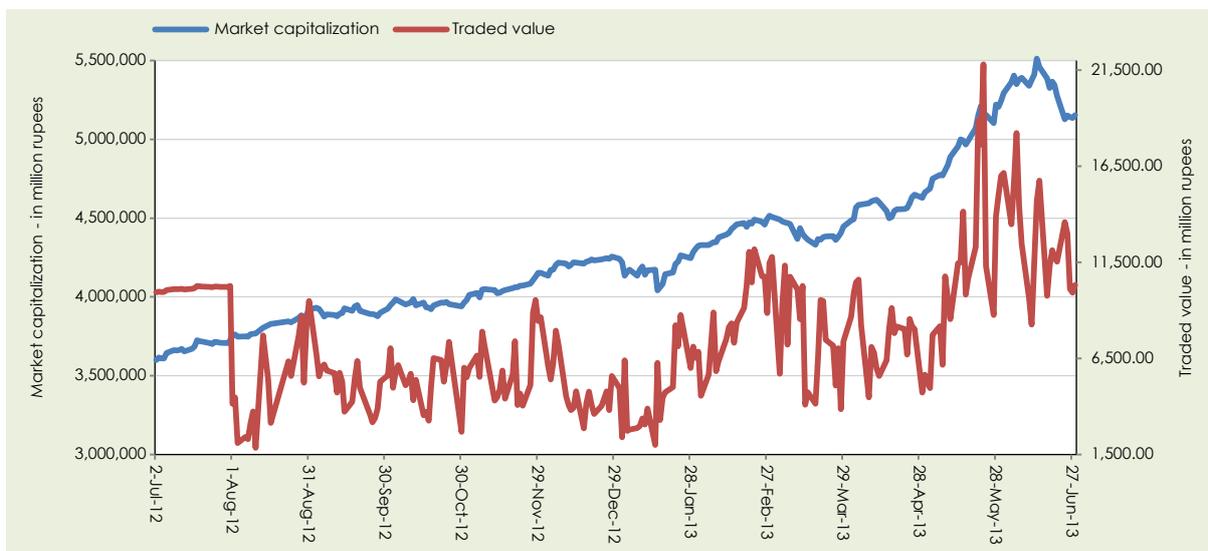
- **Onsite inspection**
Onsite inspection of the stock exchanges will be carried out.
- **Offsite reporting of PMEX**
Offsite reporting from the PMEX will be initiated.

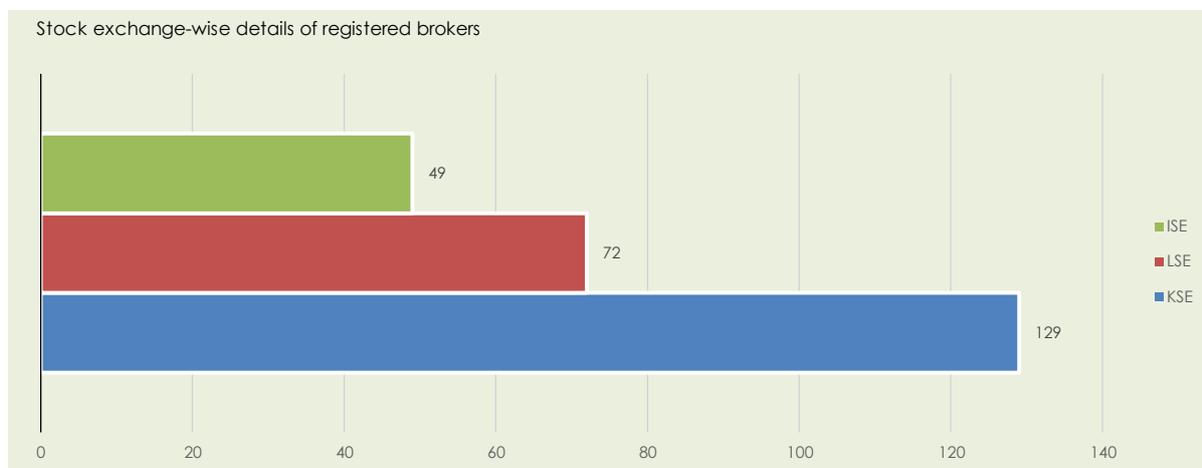
Statistics

Graph 1: KSE100 Index and daily turnover (July 2012–June 2013)



Graph 2: KSE – Market capitalization and daily traded value (July 2012– June 2013)



**Graph 3: Details of Registered Brokers****Table 1: Certificates granted to brokers**

Details	Corporate brokers	Individual brokers	Total brokers
As of June 30, 2012	241	18	259
Cancel/expire	(13)	(18)	(31)
Addition	22	0	22
As of June 30, 2013	250	0	250

Table 2: Certificates granted to agents

Details	Total agents
As of June 30, 2012	310
Cancel/expire	(42)
Addition	14
As of June 30, 2013	282

Table 3: Certificate granted to PMEX brokers

Details	Total Agents
As of June 30, 2012	168
Cancel/expire	(33)
Addition	64
As of June 30, 2013	199

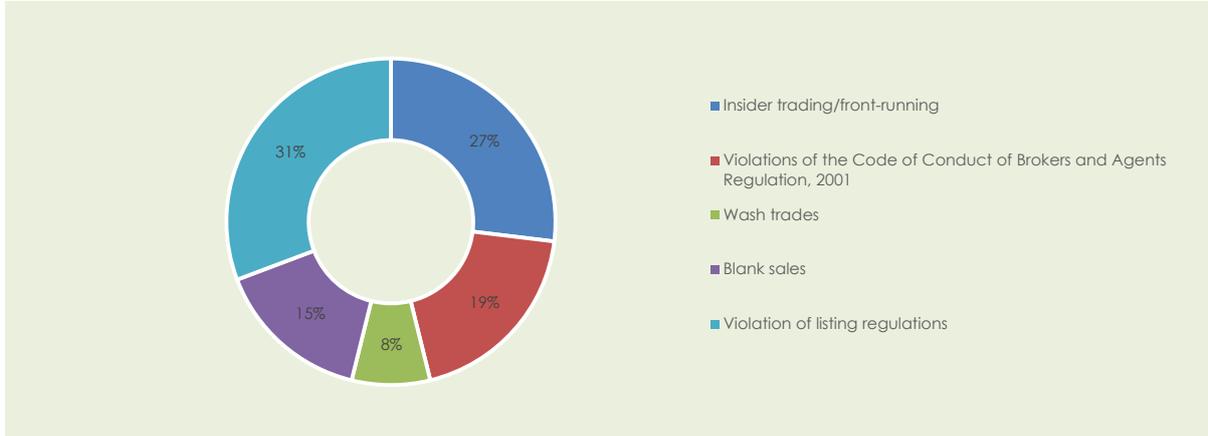
Table 4: Investors complaints received and resolved

	Total
Number of complaints brought forward from previous financial year	28
New complaints received against the brokers between July 1, 2012 and June 30, 2013	45
Complaints against brokers disposed of/resolved between July 1, 2012 and June 30, 2013	(34)
Complaints outstanding as of June 30, 2013	39

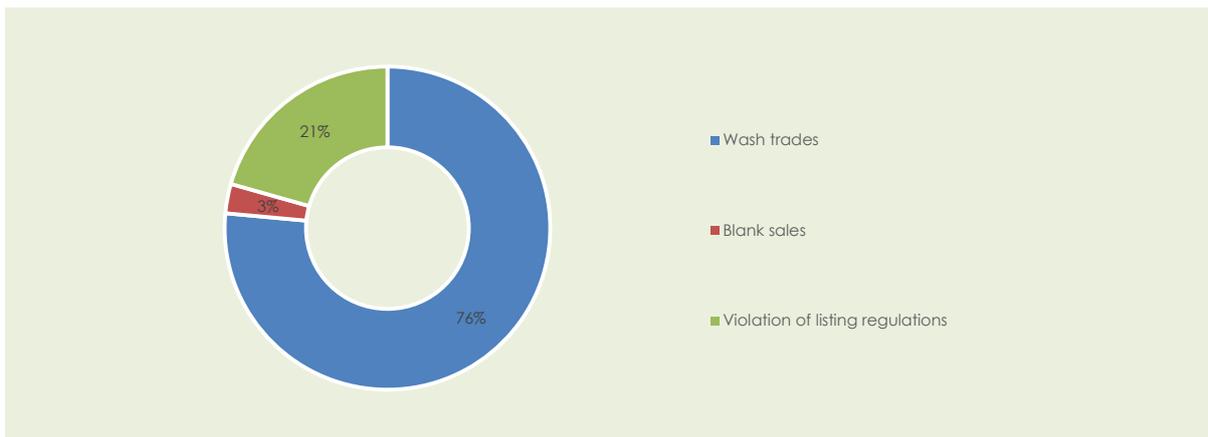


Administrative actions: nature of breaches

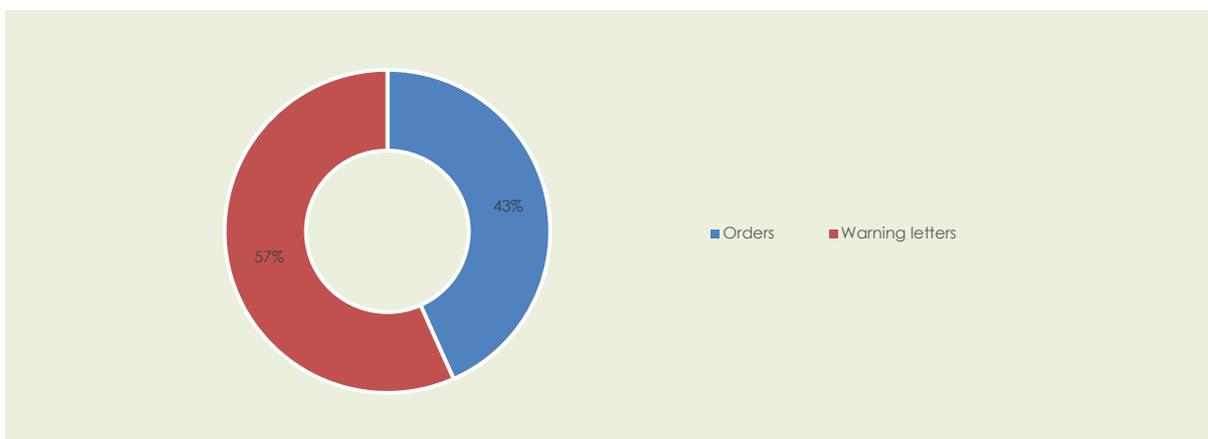
Graph 4: Orders issued by the Market Surveillance Department



Graph 5: Warning letters issued by the Market Surveillance Department



Graph 6: Administrative actions: types of sanctions





Progress on annual targets

Policy, Regulation and Development Department, SMD

Targets

- Develop debt capital market
- Introduce new products
- Revamp existing products/systems

Achievements

- Settlement of trading in debt securities listed at over-the-counter segment of the stock exchanges was made mandatory through the NCSS of NCCPL
- Regulatory framework was approved for index-based options contracts at KSE
- The mechanism of e-dividend was introduced after consultation with the leading RTAs, CDC and legal experts
- The Securities (Leveraged Markets and Pledging) Rules were revised to improve products of margin financing and margin

Highlights

- The stock exchanges were corporatized and demutualized consequent to promulgation of the Stock Exchanges (Corporatization, Demutualization and Integration) Act, 2012. Demutualization would address the conflicts prevalent in the earlier mutualized set-up of the stock exchanges by segregation of commercial and regulatory functions and separation of ownership and trading rights.
- The CGT regime was revamped to address practical issues and encouraging activity in the securities market- Finance (Amendment) Ordinance, 2012, was promulgated on April 24, 2012 and the Income Tax Rules were promulgated subsequently to give effect to the revised CGT regime.

Targets

- Promote commodity and currency trading
- Strengthen governance, transparency and risk management in the capital market

Achievements

- New commodity future contracts: Silver (10 ounce) and Milli Tola Gold Futures Contract were introduced and improvements to specifications of certain already approved contracts were made. Furthermore, efforts were made for introduction of currency pair futures contract in coordination with State Bank of Pakistan.
- For default management in the post-demutualization environment, the concept of base minimum capital (BMC) was introduced.



Policy, Regulation and Development Department

The Policy, Regulation and Development Department (PRDD) is mandated with formulating the regulatory framework of the three stock exchanges, the Central Depository Company and the National Clearing Company of Pakistan Limited, commodities market for improved risk management in their operations and procedures, introduction of new products and systems, good governance, increased transparency and improved investor protection etc.

The department is also working on reforms for an organized development of an active and transparent secondary debt capital market in Pakistan. It involves developing and reviewing policies and regulations for the debt market including new product development and system enhancements etc. based on international legal standards and best practices.

It also deals with cases pertaining to the approval of prospectuses for public offer of securities, i.e. listing of companies on the local stock exchanges; issue of securities outside Pakistan; offer of employees stock option schemes; registration of special purpose vehicles, regulating affairs of the credit rating agencies, the debt securities trustees, the underwriters and the share registrars.

It is also responsible for the development and regulation of the primary market and to monitor enforcement of the requirements of the 1996 Companies (Issue of Capital) Rules pertaining to initial public offerings (IPOs), redress of the investors' complaints and queries relating to IPOs and cases reported under section 18-A of the 1969 Securities and Exchange Ordinance.

Issue of share capital

During the period under review, shares of 3 companies were offered to the general public as compared to 4 companies last year. New capital of Rs7.606 billion was listed in FY2013 as compared to Rs10.312 billion in FY2012. The details of these issues may be seen in Tables 1, 2 and 3.

Similarly, during the same period, 3 issues of listed debt instruments/term finance certificates (TFCs) were offered to the general public as compared to same number of TFC issues last year. The TFC-1 and TFC-2 issues offered by Tameer Microfinance Bank were offered to retail investors only and there was no pre-IPO placement, whereas TFCs by Bank Alfalah were offered to both IPO and pre-IPO investors. The details of these issues may be seen in Table 4.

Furthermore, 1 company, Treet Corporation, offered 41.822 million participation term certificates (PTCs) to its shareholders. The details of this PTC issue may be seen in Table 5.

In addition, between July 2012 and April 2013, a total of 6 debt securities issued through private placement were reported. The break-up of these privately placed corporate debt issues may be seen in Table 6.

Furthermore, as of December 31, 2012, 130 corporate debt securities were outstanding with an amount of Rs608.37 billion. The details may be seen in Table 7.

Listing of securities on over the counter (OTC) market

During FY2013, privately placed TFC issue of Rs1 billion by one company was listed on over the counter (OTC) market as compared to two issues, i.e. 1 commercial papers (CP) issue of Rs1 billion and 1 privately placed term finance certificates (PPTFCs) of Rs2 billion last year.

Employees' stock option scheme

The 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. In the recent past, due to slow economic growth, a brain drain has been observed; therefore the 2001 ESOS Rules are being reviewed to make them more flexible, as per best international practices, for the employers to come up with more attractive schemes for their employees to retain them to serve in the country.

During the period under review, the employee stock options scheme (ESOS) of 1 company, ESOS of Engro Foods Limited, was approved.



Registration of debt securities trustees

During the period under review, registration was granted to 15 companies/banks to act as debt securities trustees (DST) under the 2012 Debt Securities Trustees Regulations. The details of these registered DSTs are available on the SECP's website.

Regulatory actions

Actions under section 18A of the 1969 Securities and Exchange Ordinance

The submission of fictitious and multiple applications (more than one application by the same person) are prohibited under section 18A of the 1969 Securities and Exchange Ordinance and such applicants' money is liable to confiscation. During FY2013, due to heightened awareness among market participants, no such case was reported.

Complaints resolved pertaining to issuers/companies

The department entertained various complaints pertaining to IPOs, non-receipt of dividends by the shareholders, non-verification of transfer deeds and against share registrars/transfer agents etc. During FY2013 the department disposed of 43 complaints. The status of these complaints is as follows:

Complaints status FY2013	
Brought forward from previous FY2012	06
New complaints received during FY2013	56
Total dealt with during FY2012-2013	62
Disposed of during FY2012-2013	46
Under process as of June 30, 2013	16

Developmental activities

Introduction of e-IPO

The SECP has recently introduced the concept of e-IPO in public offering of shares, enabling investors to apply for subscription of shares online, through the Internet, by using their computers and even mobile phones without the hassle of going to their banks and wait in long queues. The basic purpose of implementation of e-IPO is to facilitate simultaneously both the companies which intend to raise funds from the capital market through IPOs, and the general public applying for subscription of shares and corporate bonds offered by the companies. The SECP introduced the concept of e-IPO in the IPOs of Aisha Steels Limited in the first week of July 2012. In order to further broaden the e-IPO facility a committee has been formed by the SECP for development of e-IPO system by the KSE.

Formulation of regulations for underwriter and balloters and transfer agent

The 2001 Balloters, Transfer Agents and Underwriters Rules were promulgated to regulate the affairs of the balloters, transfer agents and underwriters. These rules had a very limited scope as they merely provided the eligibility criteria for these intermediaries and there is no licensing/registration requirements for these intermediaries or any penalty clause in case of default and non-compliance. Therefore, to build up investor confidence and to safeguard their interests, the SECP—with the approval of the federal government—has reviewed the existing Balloters, Transfer Agents and Underwriters Rules and drafted two separate sets of regulatory frameworks, i.e. the draft Underwriter Rules, 2013, and the draft Balloters and Transfer Agent Rules, 2013. Both these draft rules have been published in the official gazette to seek comments.

Formulation of regulations for issue of sukuk

An efficient, broad-based and well-regulated sukuk market greatly helps in the development of the capital market. Over the last few years, a number of sukuk issues were floated by various companies. In order to develop the sukuk market, the SECP has drafted the 2012 Issue of Sukuk Regulations, which will



facilitate the issuers and provide comfort to the sukuk investors. The regulations have been published in the official gazette of Pakistan to seek comments.

Formulation of regulations for the issue of commercial papers

Commercial paper (CP) is an unsecured money market instrument issued in the form of promissory note. Earlier "Guidelines for Issue of Commercial Papers" were issued in 2002. In order to facilitate the issuers of CPs and to remove hindrances, regulations for issue of commercial papers have been prepared. The draft of the 2013 Issue of Commercial Papers Regulations was notified to seek comments.

Separate portal for IPO/capital issue

In order to facilitate the issuers, consultants, researchers as well as and other stakeholders, a separate portal on the SECP's website has been created under the title of Capital Issues and Public Offerings. All information relevant to capital issues and public offerings has been placed on this portal, which includes details of equity issues, details of debt issues viz. listed TFCs, privately placed TFCs, sukuk and commercial papers. Furthermore, redemption statutes of debt securities as well as laws, rules, regulations and guidelines applicable to issue of securities were also placed under the said portal. In addition, a list of registered debt securities trustees, list of underwriters to the issue, list of balloters and share registrars to an issue and list of advisors/consultant to an issue are also available on the said portal.

Formulation of regulations for the consultant to a public issue of securities

The consultants to a public issue play vital role in floatation of securities. They are not only involved in the preparation of prospectus and other related documents, but also act on behalf of their clients, i.e. the issuers/offers in getting necessary approvals from the regulatory authorities and conducting road shows etc. For regulating the affairs of consultants, the Consultants to a Public Issue of Securities Rules, 2012, have been drafted. The draft rules broadly cover four major areas: (i) eligibility criteria for consultants to a public issue of securities; (ii) registration and renewal; (iii) duties and responsibilities; and (iv) disciplinary action against the consultants to a public issue of Securities, in case of contravention and failure. It is expected that upon finalization of the said rules and proper implementation thereof, quality of the prospectus drafted by the consultants and that of other related documents will improve which will help in time saving and early finalization of the issues. The said rules have been approved by the SECP and forwarded to the Finance Ministry for approval.

Regulatory framework for establishment of SME board/exchange

The small and medium enterprises (SMEs) play a vital role in the development of a country and its economy as they have the potential to create economic as well as social growth. The availability of inexpensive capital is crucial to the SMEs' growth and survival. The financial constraints sometime force the SMEs to close down, creating negative impact on the economy and the unemployment situation. It is, therefore, of utmost importance to minimize constraints and to enable the SMEs to grow and develop.

A dedicated SME exchange or a separate SME board within a stock exchange will help these SMEs in finding a solution to their funding needs. Listing of an SME on the exchange will result in better valuation and wealth creation for the promoters and the investors. In order to facilitate the SMEs in meeting their business needs, the SECP is working in coordination with stakeholders for the establishment of a separate SME board/exchange. This initiative will allow fundraising through IPOs and trading of the securities of the SME sector on the stock exchanges.

Review of the 1996 Companies (Issue of Capital) Rules

The 1996 Companies (Issue of Capital) Rules were promulgated on February 8, 1996, and contain a set of requirements and procedures for the companies proposing to offer share capital to the public. Pursuant to changes in market dynamics and introduction of the book building process, necessary amendments were drafted to the said rules and after obtaining public opinion, the said draft rules have been revised and forwarded to key stakeholders. These rules are being finalized prior to sending them to the Ministry of Finance for approval.



Unclaimed/undelivered shares and unclaimed cash dividend lying with listed companies

Work has been initiated to ascertain the quantum of shares lying with various listed companies as unclaimed/undelivered. In this regard necessary information/data has been obtained from registrar and transfer agents (RTAs) and listed companies. The analysis of data/information revealed that more than 190 million shares were lying as unclaimed/ undelivered as of September 30, 2012, with 516 listed companies/ their RTAs which include shares offered/issued through IPOs, right issues, bonus issue. Furthermore, it is also reported that as of September 30, 2012, Rs8.34 billion were held by companies as unclaimed cash dividend. The details of shares lying unclaimed may be seen in Table 8.

Measures to encourage new listings

Measures like these are being taken to encourage new listings:

- The management of unlisted public companies is being approached to motivate them for listing at the stock exchanges. The IPO summits have been organized to identify potential IPOs and to attract them to list their companies on the stock exchanges.
- The existing regulatory framework is being revised for new listings and introduction of the SME board for listing of small capital-based companies and venture companies.
- In order to encourage listing of debt securities on the exchanges, separate set of regulations for listing of debt securities offered to QIBs and separate set of regulations for listing of debt securities issued to the general public are being framed.
- In order to rationalize the cost of issue of corporate bonds, steps are being taken to reduce the rate of stamp duty applicable to issue and transfer of TFCs and commercial papers.
- Tax proposals to the FBR to encourage new listings.

Regulations for Debt Securities Trustee (DST)

The SECP instituted the Debt Securities Trustee Regulations, 2012, and under these regulations 15 DSTs were granted registration. The list of these registered DSTs is available on the SECP's website.

Amendments to the share transfer deed for dividend mandate

In order to facilitate shareholders, listed companies and share registrars and to encourage payment of dividend through direct credit into the shareholders' bank account, the Form of Transfer Deed as provided in Regulation No 9 of 'Regulations for Management of a Company Limited by Shares' in Table A of First Schedule to the 1984 Companies Ordinance was amended. The amendment will bring about the following benefits:

- It is hassle-free because shareholders do not need to visit their banks to deposit dividend warrants
- It is efficient as it leads to prompt credit in to the bank account of the shareholder through electronic clearing
- It will eliminate fraudulent encashment of dividend warrants
- Delays/loss of dividend warrants in postal service will be eliminated
- As there can be no loss in transit of dividend warrants, therefore, issuance of duplicate dividend warrants will be minimized

Automation

The systems are being developed for the e-reporting of the following:

Corporate Debt Market Reporting System

- Redemption status of debt instruments
- Reporting of the term sheet of debt issues
- Compliance status of the covenants of the trust deeds

Formulation of framework for e-IPO

- Development of a centralized system for making applications by investors through the Internet for subscription of shares offered by companies through IPOs.



Future plans/work in progress

Development/review of the regulatory framework

In order to develop the capital market, especially the primary market, the following developmental activities are being undertaken for the forthcoming fiscal year 2013-14:

Review of the existing rules/regulations/guidelines

- Review of the Companies (Asset Backed Securitization) Rules, 1999
- Review of the Guidelines for Issue of Term Finance Certificates
- Code of Conduct for Credit Rating Agencies
- Amendments to the Credit Rating Rules, 1995
- Enhancement of the rating universe for credit rating agencies
- Guidelines for the Employees Stock Option Schemes

Development of new rules/regulations/guidelines

- The Regulations for Issue of Call Warrants
- The Companies Issue of Redeemable, Perpetual, Convertible and Exchangeable Debt Securities Regulations
- The review of the listing regulations of the stock exchanges with the view to making the listing process easier and more efficient

Key Achievements

Development of laws and regulations

In line with the SECP's mandate to develop a robust regulatory framework which fosters a fair, efficient and transparent capital market, various amendments were approved to the regulatory framework of the capital market after stakeholder consultation and in light of best international practices:

Amendments to the regulatory framework of the stock exchanges

1. The amendments were approved to the General Regulations of the Karachi Stock Exchange to provide for necessary disciplinary actions against a UIN defaulting on capital gains tax (CGT) payment and non-payment of MtM losses and/or other applicable margins in the margin trading system market.
2. In order to promote market making activities, amendments were approved to the Market Makers Regulations of the KSE to permit the KSE to allow 100% relaxation in transaction fee to a market maker on its market making trades and also distributing the transaction fee collected in full or in part from counterparty on these trades to the respective market maker.
3. To encourage participation in the derivative markets, basic deposits in the cash-settled futures and stock index futures markets of the KSE were fully waived.
4. Amendments were approved to the regulations governing risk management, general regulations and regulations governing default management of the stock exchanges to introduce the concept of base minimum capital as an alternative to the membership cards in the demutualized environment to cater for the scenarios of default.
5. To promote liquidity and facilitate the brokers in enhancing their trading capacity, amendments were approved to the regulations governing risk management and regulations governing default management of the stock exchanges. Through these amendments, a broker has been allowed to take aggregate exposure up to an amount prescribed separately for each stock exchange against an irrevocable bank guarantee to be provided to the National Clearing Company of Pakistan Limited (NCCPL) by the trustees of the clearing house/settlement protection funds maintained by these exchanges in lieu of pre-trade and post-trade VaR based exposure margin requirements.



Amendments to the regulatory framework of the NCCPL were approved

1. To encourage participation of small brokers in debt market as broker debt market clearing members, capital adequacy requirement for debt market has been reduced from Rs25 million to Rs4 million
2. To restore earlier practice of minimum marketable lot size for listed securities in Ready Market and odd lot market, to address concerns and observations of market participants and to facilitate small investors
3. To improve activity in Securities Lending and Borrowing (SLB) market, disbursement of 100% of SLB contract value to the lender was approved as compared to previous applicable limit of 50%. Consequently, VaR based exposure margins shall be collected till settlement of SLB Transaction from the lender in addition to the borrower. Further, to expand the SLB market base, all the tradable securities were made eligible for lending and borrowing
4. The Clearing House Protection Fund contribution which was earlier collected by the KSE will now be collected at the same rate by NCCPL with name of NCC Clearing and Settlement Fund, on trades of all markets. This will support the efforts for designating the NCCPL as a central counterparty.
5. To provide necessary framework for the launch of index options at the KSE whereby the NCCPL will provide automated mechanism for settlement of cash-settled index options contracts
6. To allow trading financiers in the margin trading system (MTS) to pledge up to 50% of blocked securities of proprietary account with the NCCPL/stock exchanges to meet their margin requirements. This will encourage participation of margin financiers in the said market.

Amendments to the regulatory framework of the CDC were approved

1. To strengthen the CDC's powers to take disciplinary action, i.e. restriction on admission or termination of admission to the CDC against non-complaint account-holders
2. To enable smooth settlement of outstanding trades of suspended/terminated brokers
3. Necessary amendments consequent to the promulgation of the 2012 Stock Exchanges (Corporatization, Demutualization and Integration) Act
4. To provide supporting framework for the launch of exchange-traded funds (ETFs)
5. To enable the stock exchanges to accept their own shares as collateral to meet the base minimum capital requirements for their brokers
6. To make subscription of either e-alerts or text messages mandatory to extend the facility of free-of-cost e-alerts or text messages to investors

Regulatory framework of the PMEX amended

In order to introduce regular inspections/audits of the PMEX members to ensure their compliance with the relevant regulatory framework, the amendments to the regulations governing system audit of brokers of the PMEX were approved.

Developmental activities

Equity and derivatives markets

To provide investment alternatives and to add depth to the market, regulatory framework was introduced at the Islamabad Stock Exchange for enabling the launch of the ETFs.

Commodities market

Commodity futures markets play a pivotal role in reducing price volatility, assisting price discovery and bringing greater balance in the supply and demand of commodities in the economy. To further these objectives, new commodity futures contracts were introduced at the PMEX in cotton (cash-settled) and silver (10 ounces).



Debt market

For the development of the debt capital market, the settlement of trading in debt securities listed at the over-the-counter (OTC) segment of the stock exchanges has been made mandatory through the National Clearing and Settlement System (NCSS) of the NCCPL, as against the earlier practice of settlement of these trades on counterparty basis outside the NCSS. This initiative will facilitate auto settlement of these trades.

Islamic capital market

To introduce Sharia-compliant products in line with best international practices, the SECP has established a Sharia Board comprising of Islamic scholars and market professionals to ensure that all products/services offered under this umbrella are in conformity with the Sharia principles.

Introduction of odd-lot market

To facilitate investors in trading of thinly traded securities and fractional shares due to corporate entitlements, a separate odd-lot market has been reintroduced at the stock exchanges which will operate parallel to the cash market under the risk management system of the exchanges.

Introduction of market makers in the stock index futures market

Earlier, the SECP had approved the Regulations Governing Stock Index Futures Contract to introduce index futures market at the KSE. In order to promote liquidity and efficient execution of orders, market makers have been introduced in the SIF market.

Introduction of e-dividend mechanism

The mechanism of e-dividend was introduced after consultation with the leading RTAs, CDC and legal experts. This mechanism which enables electronic distribution of cash dividends will substantially reduce time involved in payment of dividend, enable instant credit of funds and will eliminate the need to print, dispatch, re-dispatch and validate the dividend warrants.

Developmental activities and structural reforms

Demutualization of the stock exchanges

Consequent to the promulgation of the 2012 Stock Exchanges (Corporatization, Demutualization and Integration) Act, the stock exchanges were successfully corporatized and demutualized on August 27, 2012. The act was approved in a joint session of the parliament and subsequently promulgated after presidential assent on May 7, 2012. The demutualization is a ground-breaking reform for the Pakistani capital market as it will address the conflicts prevalent in the earlier mutualized set-up of the stock exchanges by segregation of commercial and regulatory functions and separation of ownership and trading rights. This development has brought the Pakistani stock exchanges on a par with their global counterparts. While bringing enhanced governance and transparency at the stock exchanges, the demutualization will also project a positive image of the Pakistani stock market on international platforms and will facilitate the exchanges in attracting global strategic investors of good stature and increase the depth of primary and secondary markets.

Default management in the post-demutualized environment

Post-demutualization, each member/initial shareholder of the stock exchanges has been allotted shares and a trading right entitlement certificate (TREC) in lieu of the membership card. In the event of default of any TREC holder, the proceeds of such card are no longer available for utilization to satisfy investor claims. In order to cater for this, the concept of base minimum capital (BMC) was introduced, which is required to be deposited and maintained at all times by each TREC holder with the respective stock exchanges. The BMC will be available for utilization as collateral in the event of default by the relevant TREC holder in the demutualized regime.



Revamp of CGT

In order to assist in documentation of the economy and to bring the income of securities market investors within the tax ambit, the CGT regime had been revamped earlier with the promulgation of the 2012 Finance (Amendment) Ordinance. Subsequently, the Income Tax Rules were promulgated and necessary amendments to the regulatory framework of the NCCPL, CDC and stock exchanges were made to implement the CGT reforms.

Review of the Securities (Leveraged Market) Rules

Under the 2011 Securities (Leveraged Markets and Pledging) Rules the leverage products of margin financing (MF), margin trading (MT) and SLB had been launched to ensure easy access to financing and liquidity to the market. To bring about improvements in these products, the relevant regulatory framework was amended to extend the SLB market base and all the tradable securities were made eligible for lending and borrowing. Further, pledging of 50% MT financed securities was allowed and the KSE was allowed to impose restriction on UINs in the event of default in the MT market. Furthermore, at the SECP's advice, the NCCPL has conducted a number of awareness sessions in Karachi, Lahore and Islamabad to promote the leverage products.

Code of Corporate Governance

Earlier, a new Code of Corporate Governance had been introduced for listed companies. It was done to foster good governance principles and practices in the corporate sector. In order to raise awareness about the new code, awareness sessions were held at all the three stock exchanges, which were attended by the representatives of the SECP, the exchanges and the listed companies. Queries from various quarters were also answered to improve understanding and effective implementation of the revised code.

Future plans/work in progress

The SECP's future roadmap, as outlined below, envisages introduction of key structural and regulatory reforms, development of equity, derivative, debt, commodities and currencies markets, and measures for improving governance, risk management, efficiency and transparency in capital market operations:

Post-demutualization reforms

In collaboration with the stock exchanges, the SECP is introducing consequential reforms, including the revamping of regulatory frameworks which are essential for taking the exchanges forward in the demutualized setup. The stock exchanges are in the process of bringing in strategic investors which will enable the exchanges to benefit from their extensive expertise and technological assistance, apart from bringing foreign investment and broadening the investor base. Simultaneously, efforts will be made for listing of the stock exchanges so their shares are offered to the general public in terms of the demutualization law. The possibility of integration of the three stock exchanges is also being explored to benefit from operational synergies in line with best international practices.

Establishment of a central counterparty

In order to provide protection to investors and to resolve pending settlements in case of defaults, a serious effort is being made to enable the NCCPL to function as a central counterparty. In addition, the possibility of structural reforms such as merger of the depository and clearing companies will be assessed.

Commodities market development

For the commodities market, regulations governing branch offices for the PMEX are also being introduced so that branch offices of brokers are adequately regulated and only authorized persons of brokers have access to trading accounts and other sensitive information. Furthermore, new membership categories for PMEX are being considered for approval, primary objective of which is to improve risk management at the PMEX.



Strengthening of the debt market

In order to accelerate growth in the debt market, efforts will be made for listing of government debt instruments at the stock exchanges and integration of National Savings Scheme instruments into the mainstream capital market, in coordination with the federal government and the State Bank of Pakistan (SBP).

Development of new products and systems

Regarding new product/system development, the future SECP agenda includes introduction of Sharia-compliant investment alternatives, listing and trading of call warrants on stock exchanges, stock options, and cross listings of foreign and domestic indices at Pakistani and foreign stock exchanges to boost activity in index futures market. And avenues are being explored to introduce the latest risk management techniques including introduction of the Standardized Portfolio Analysis of Risk (SPAN) margining regime in the derivative market segments. The SECP is also engaged with the SBP to expedite the launch of currency futures contracts for the commodities market.

Establishment of a brokers' association

Considering the important role of market intermediaries, the possibility of establishing a brokers' association is being assessed which will provide an effective platform for the stockbroking community to voice their concerns to the government and regulatory bodies and ensure professional training and exposure to intermediaries while creating awareness among them about market issues.

Statistics

Issue of capital

Table 1: Equity

Sr. No.	Name of company	Sector	Subscription date	Total paid-up capital (in million rupees)	Already paid-up capital (in millions rupees)	Offered capital (in million rupees)	Premium per share (rupees)	Offered capital (including premium, if any) (in million rupees)	Subscription received (including premium if any) (in million rupees)	Times subscribed
1	Aisha Steel Mills Limited	Industrial metals and mining	July 3-4, 2012	2,680.00	2,680.00	100.00	0.00	100.00	270.29	2.70
2	Lalpir Power Limited	Power sector	July 3-4 2013	3,798.39	3,798.39	94.96	12.00	208.91	850.60	4.07
	Total			6,478.39	6,478.39	194.96		308.91	1,120.89	

Table 2: Book building portion

Sr. No.	Name of company	Sector	Bidding date	Formal listing date	Total paid-up capital	Already paid-up capital	Floor price/ price band	Number of shares offered through book building	Bids received				Times subscribed
									Min bid	Max bid	Number of shares	Strike price	
1	Lalpir Power Limited	power sector	June 18-19, 2013	Awaited	3,798.39	3,798.39	15	28,488,000	15	25.2	169,350,615	22	5.94

Table 3: Preference shares

Sr. No.	Name of company	Subscription date	Number of pref. shares offered	Offered capital (including premium, if any) (in millions rupees)	Total preference shares paid-up capital (in million rupees)	Subscription received (including premium if any) (in million rupees)	Times subscribed
1	Javedan Corporation Limited	Sept 10-11, 2012	14,581,900	145.819	1,127.771	10.810	0.07

**Graph 1: Number of equity issues to the public FY1998-2013****Table 4: Debt issues**

Sr. No	Name of company	Subscription period	Listed at	Issue size (in million rupees)
i.	Tameer Microfinance Bank Ltd. (Tameer Sarmaya Certificate, TFC-1)	Nov 21, 2012 to Feb 21, 2013	KSE	500
ii.	Tameer Microfinance Bank Ltd (Tameer Sarmaya Certificate, TFC-2)	Nov 21, 2012 to Feb 21, 2013	KSE	500
iii.	Bank Alfalah 5th TFC issue	Feb 19-20, 2013	KSE	5,000
	Total			6,000

Table 5: PTCs to shareholders

Sr. No.	Name of company	Offer date	Number of certificates to be issued	Issue price per certificate (Rs)	Total issue size (in million rupees)
1	Treet Corporation Limited*	Jul 13, 2012	41,822,250	30.00	1,254.67

*Offered only to existing shareholders of Treet Corporation Ltd. by way of renounceable offer letter (ROL).

Table 6: Privately placed debt securities

Sr. No.	Name of security	Number of issues	Amount (in billion rupees)
i.	Privately Placed Term Finance Certificates	3	1.544
ii.	Sukuk*	3	50.801
	Total	06	52.345

* Includes sukuk issue of Rs47,018 million by Pakistan Domestic Sukuk Company Limited

Table 7: Corporate debt securities outstanding

Sr. No.	Name of security	Number of issues	Amount (in billion rupees)
i.	Listed term finance certificates (L-TFCs)	37	57.62
ii.	Privately placed term finance certificates (PP-TFCs)	42	70.54
iii.	Sukuk	51	480.21
	Total	130	608.37

Graph 2: Number of TFCs floated FY1995-2013

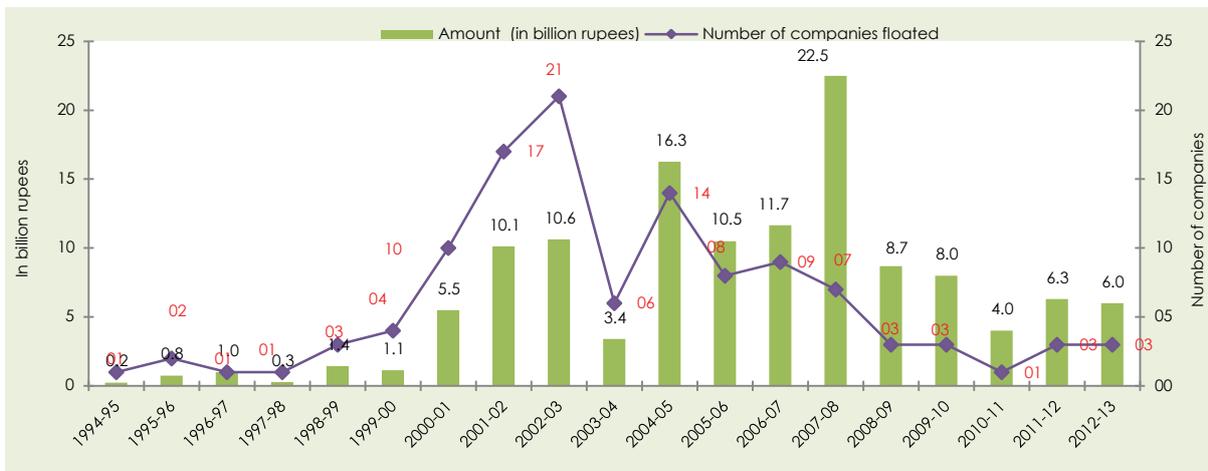


Table 8: Unclaimed shares with listed companies/ RTAs (as of September 30, 2012)

As of	Total companies listed and approached	Number of companies responded	Number of companies reported nil unclaimed shares	Type of unclaimed/undelivered shares (In millions)				Total unclaimed shares (In million rupees)	Unclaimed dividend (In billion rupees)
				IPO	Bonus	Right	Other		
Sept 30, 2012	574	516 (90%)	161 (31%)	6.95	74.83	22.72	85.52	190.01	8.34



Progress on annual targets

Special Initiatives Department

Targets

- Establishment of an independent bond pricing agency (BPA)
- Regulations for distribution of specie dividend by companies

Achievements

- Bond Pricing Agency Regulations, 2013, drafted in consultation with stakeholders and the general public. Company incorporation and licensing to be initiated with promulgation of the regulations.
- Companies (Distribution of Specie Dividend) Regulations, 2013, framed in consultation with stakeholders and the general public. To be notified soon.

Highlights

- Bond Pricing Agency Regulations, 2013, drafted
- Regulatory framework for registration of new commodity exchanges drafted and legally vetted

Targets

- Establishment of a Central Know Your Client Organization (CKO)
- Development of regulatory framework for registration of new commodity exchanges

Achievements

- Consultations with stakeholders completed on the concept on CKO. Regulatory framework of the stock exchanges, CDC and NCCPL being amended in line with the concept
- Regulatory framework drafted and legally vetted. After the Commission's endorsement, it will be sent to the Finance Ministry for approval



Special Initiatives Department

The SID is a relatively new department. It was created in February 2013. It undertakes special projects assigned to it.

Establishment of an independent bond pricing agency

The SECP, as part of its mandate to develop the debt capital market in the country, had envisioned the setting up of an independent bond pricing agency (BPA), to undertake services of pricing debt securities.

Pricing of debt securities is an issue faced globally primarily due to low trading volumes in listed debt and predominant trading over-the-counter. In Pakistan, the Mutual Funds Association has been providing pricings of corporate debt to the market. However, in order to ensure pricing based on international benchmarks/models and provision of fair value of all debt securities to the market on a daily basis an independent BPA is considered essential.

In order to register and regulate activities of a BPA, the SECP—in consultation with the relevant stakeholders and after soliciting public opinion—has drafted the Bond Pricing Agency Regulations, 2013. These regulations broadly cover eligibility conditions for registration as a BPA, procedure for its registration and renewal, continuing obligations of a BPA and disciplinary powers of the SECP.

Regulations for distribution of specie dividend by companies

Specie dividend is a form of dividend where shares of another company whether listed or unlisted, which are held as investment by the issuing company, are distributed among entitled shareholders of the issuing company.

In order to ensure protection of investors, provide enhanced transparency and to facilitate companies, the SECP in consultation with the relevant stakeholders and the general public has drafted the Companies (Distribution of Specie Dividend) Regulations, 2013.

The regulations, which have been drafted after detailed study of practices in various international jurisdictions, broadly cover the eligibility conditions and manner for declaration/distribution of specie dividend and the requirement to provide an independent valuation report for securities to be distributed in case the company is unlisted. The draft regulations also require the distributing company to provide a detailed information memorandum to its shareholders. Since the securities of a company would be distributed as specie dividend without going through the process of a public offering, the information memorandum would serve as a comprehensive source of information about such company in order to make the shareholders aware about its activities, objectives, performance etc.

It is expected that the promulgation of these regulations will facilitate companies while ensuring maximum protection of investors through various disclosure requirements. Further, while considering that many companies in Pakistan are closely held, the distribution of securities as specie dividend in a protected environment will help in broadening the investor base and depth of the market.

1. Establishment of a central know your client organization

At present, all intermediaries in the capital market are performing registration/account opening process for their clients separately. This not only leads to duplication of efforts and waste of resources but also clients have to repeatedly undergo the KYC process each time they open an account with an intermediary. In order to address these issues and provide maximum facilitation to the investors while bringing more transparency and accuracy in the KYC process, the SECP has taken the initiative of establishing a Central KYC Organization (CKO). The NCCPL has been tasked with functioning as the CKO. The CKO shall develop a centralized web-based system named KYC Information System and maintain separate and exclusive data base for the storage of KYC information of investors entered by the market intermediaries. Considering NCCPL's present role in handling sensitive data for settlement of transactions at the stock exchanges, it shall in the capacity of a CKO ensure security of all data regarding the KYC information of investors at all times.

The concept of CKO was devised by the SECP in consultation with the stakeholders and the general public. The relevant regulatory framework and system development are in finalization stage.

Subsequent to the establishment of the CKO, an investor who meets the KYC requirements through an intermediary shall be able to open accounts with other intermediaries without repeating the process. This shall also assist in implementing a stronger anti-money laundering regime in the capital market. In the first phase, the CKO will provide centralized services for the brokerage and mutual fund industry while in the second phase the same will be extended to the investors of commodity futures market and insurance sector.

2. Development of regulatory framework for registration of new commodity exchanges

In order to promote competition and encourage growth in the commodity futures market, the SECP has initiated a process of putting in place requisite legal framework to allow for registration and comprehensive regulation of new commodity exchanges by amending the 2005 Commodity Exchange and Futures Contracts Rules. The SECP proposes to introduce sufficient legal and operational requirements to ensure that the registration is granted only to those companies that have the requisite capacity to operate as commodity exchanges and are also commercially viable. The framework will further require the existing commodity exchange(s) to ensure compliance with such conditions within an appropriate timeframe.



Specialized Companies Division



Policy, Regulations and Development Department (SCD)

Asif Jalal Bhatti (ED/HOD) with Shahid Mahmood, Jawed Hussain, Muhammad Afzal, Waseem Khan, Nasir Askar, Saima Ahrar, Tanzila Nisar Mirza, Imran Minhas, Saud Mukhtar, Javed Akhtar and Mubashar Hassan.



Supervision Department (SCD)

Shahid Nasim (ED/HOD) with Qaiser Iqbal, Tariq Soomro, Ahmer Majeed Fareedi, Kashif Ghani, Mubeen Ashraf, Mirza Aleem Baig, Aamir Qureshi and Nadeem Rafiq.



Progress on annual targets

Policy, Regulation and Development Department

Targets

- Conduct offsite examination of 100% entities of NBFC and Modaraba sector
- Compile and issue sector report of NBFCs and modarabas on monthly basis
- Development of SCD information portal to further enhance, the level of cooperation among SCD wings and the efficiency of decision making
- Improvement in the SCRS (Specialized Companies Return System) relating to filing of returns by modaraba management companies and pension fund managers
- Enhancement in the scope of offsite reviews, particularly relating to the liabilities side, internal and external audit, risk management, board's audit committee and corporate governance
- Development of review checklists, standardized formats of the offsite review reports, etc. to enhance coverage and completeness
- Conduct onsite inspection of 12 NBFCs and modarabas during the year 2012-13
- Revision of inspections operational manual for AMCs and collective investment schemes under their management
- Enforcement actions based on independent review of quarterly offsite, onsite inspections and sector reports received from relevant officers and complaints received from investors
- Review and take timely enforcement actions based on immediate action reports, trustee's observations, complaints and market intelligence
- Strategically handling of financially and operationally distressed entities, to recover from the difficult positions and honor their commitments to the general public and other market participants

Achievements

- Enabled pension funds to diversify their portfolios, a new sub fund by the name of commodity sub-fund has been introduced. Furthermore, the assets of pension funds have increased by 65% over the past year.
- A committee comprising of leading market professionals was formed to make recommendations for revival of NBF sector, promotion of non-deposit taking and non-listed NBFCs, centralized regime for investment advisory services and revised regime for REITS and private equity. After a thorough review of the existing regulatory framework, best international practices and detailed deliberations, the committee prepared an initial draft report.
- Facilitated growth, new products such as commodity funds, commodity future contracts based balanced fund and asset allocation fund, the CPPI based and different investment allocations based Sharia-compliant fund of funds were allowed.
- Standardized trust deed and offering document were drafted, deliberated upon and approved to streamline the mutual fund's disclosure for easy understanding of the investor and to reduce turnaround time for regulatory approvals.
- Regulation 65 of the 2008 NBFC Regulations regarding closed end funds was amended and closed end funds were required to either convert into an open end scheme or to windup/revoke so that the investor can get true value of the investments held by these funds as they were trading at discount to their NAV.
- The Prudential Regulations for Modarabas reviewed and appropriate amendments have been proposed.
- The risk management guidelines for modarabas have been prepared and final draft has been forwarded for necessary approval.
- The modaraba sector is largely Sharia compliant and Sharia audit mechanism has been put in place.
- The SECP constituted the NBF Reform Committee to review REIT regulations in consultation with relevant stakeholders. The committee has suggested a number of changes to the REIT regulations which are under consideration and would be made a part of REIT regulations as soon as they are finalized.

Highlights

- Voluntary pension industry increased by more than 60%
- A new set of Prudential Regulations and Risk Management Guidelines have been finalized.
- Sharia compliance and audit mechanism has been fully implemented.
- Winding up of innovative Investment bank and Natover Lease and Refinance Limited.



Specialized Companies Division

The Specialized Companies Division (SCD) comprises of 2 departments:

- Policy, Regulation and Development Department
- Supervision Department

Policy, Regulation and Development Department

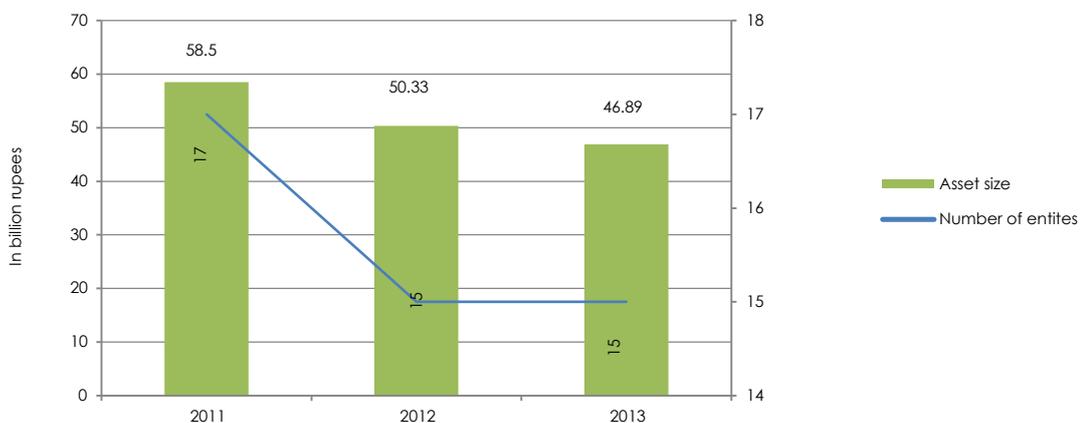
It is responsible for the development and review of policies and regulations governing the non-banking financial (NBF) sector. It primarily regulates investment banks, leasing companies, REITS, private equity, housing finance companies, modarabas, voluntary pension funds and mutual funds. Its functions include licensing, registration, provision of comprehensive regulatory framework and granting necessary regulatory approvals to the NBF and the modaraba sectors.

Non-banking financial services

Non-banking financial services are being provided by leasing companies, investment finance companies (investment banks) and housing finance companies. As of June 30, 2013, there were 8 leasing companies and 7 investment finance companies. At present, no entity within the SECP's ambit is providing housing finance services. The names of the entities are given in table below. The core business of leasing companies is to provide leasing facilities to their customers and is also an important source of funding for the SME sector. The investment finance companies are a little more diversified in nature of business since they can undertake a broad range of activities, including money and capital market activities, project financing, corporate financial services, etc.

Leasing companies	Investment finance companies
• Orix Leasing Pakistan Limited	• IGI Investment Bank Limited
• Pak Gulf Leasing Company Limited	• Escort Investment Bank Limited
• Grays Leasing Limited	• First Credit Investment Bank Limited
• NBP Leasing Limited	• Security Investment Bank Limited
• Security Leasing Company Limited	• Invest Capital Investment Bank Limited
• SME Leasing Limited	• First Dawood Investment Bank Limited
• Standard Chartered Leasing Limited	• Trust Investment Bank Limited
• Saudi Pak Leasing Company Limited	

The total asset size of these entities over the years is reflected in the graph below:





The preceding table shows that the size of leasing and investment finance companies is decreasing. This decrease can be attributed to a variety of challenges being faced by these entities, including high cost of borrowings, liquidity problems, limited resource mobilization, inability to tap debt and equity markets, absence of level playing field, scarcity of skilled human resource, limited branch network etc.

Future plans

The development of a strong NBF sector is imperative as it will not only promote savings by offering different asset classes to the investors but will also provide alternative fundraising opportunities to the participants of financial system. A strong NBF sector will also decrease systemic risk by reducing dependence on banking sector.

In order to ensure the development of the NBF sector, a need was felt for in-depth review of the whole business model and prevalent regime with a fresh perspective. In view of this objective, the SECP constituted a NBF Sector Reform Committee to suggest reforms for the development of the NBF sector. The committee, consisting of leading market professionals and senior SECP officers, has made its recommendations for promotion and growth of a sustainable NBF sector. The recommendations of the committee were rolled out in March 2013 for public consultation.

The above referred report contains an exhaustive review of the whole business model and prevalent regime of non-banking financial services with a completely new perspective. Based on a thorough review and simultaneously taking into account the global best practices as well as the interests of all the stakeholders, the following comprehensive way forward was suggested for the sustainable growth of entities engaged in non-banking financial services:

- Best international practices patronize the concept of activity-based regulatory regime and following suit the same may be considered for these entities
- Revamp of investment finance services (IFS) model
- Introduction of comprehensive regulatory regimes for unregulated activities such as investment advisory services, corporate advisory services etc.
- Introduction of a separate regulatory regime to encourage mid-size non-deposit taking NBFs
- Introduction of measures for safeguarding the interests of the stakeholders of entities engaged in non-banking financial services. These measures, inter alia, include introduction of concept of capital adequacy ratio, capping of deposit taking activities, reduction in exposure limits, rationalizing leveraging capacity, etc.

The above measures are not only expected to address the issues currently faced by the entities undertaking non-bank financial services but would also benefit the overall financial system.

Real estate investment trust

The Real Estate Investment Trust (REIT) Regulations provide the regulatory framework for REITs in Pakistan. The regulatory framework, which was notified through the 2008 REIT Regulations, and amended subsequently in 2010, envisages 3 types of REITs, i.e. developmental, rental and hybrid. The REIT management company (RMC) is responsible for managing real estate on behalf of investors. The REITs provide retail investors with an avenue to invest in real estate business. The developmental REITs provide an alternative financing source for real estate projects. Currently, there are 3 REIT management companies in Pakistan licensed under the 2008 REIT Regulations. These companies proposed a few projects to be registered as REIT schemes. However, owing to typical problems such as encumbrances, overvaluations, encroachments and incomplete title documents these proposals could not meet the requirements for registration of REIT scheme as specified under the REIT Regulations. Under the present market conditions, it was desirable that the regulatory framework be tailored to safeguard interests of unitholders as well as promote development of REITs. For this purpose, the SECP constituted an NBF Reform Committee to examine current state of affairs of constituents of the NBF sector, including the REITs. Keeping in view the local investment environment, the committee reviewed different aspects of REITs comprehensively and suggested measures to improve the regulatory framework.



The SECP is conscious of its obligations to small investors and is taking necessary measures to widen the investment horizon for the public with necessary safeguards to maintain confidence of the investors in the capital market. The report prepared by the NBF Reform Committee was disseminated among the public and professional bodies for comments. The comments received from the public are being evaluated to improve the REIT regulatory framework. The recommendations of the NBF committee include:

- Reduction in the equity requirement for setting up RMC
- Downward revision of the capital requirement of REIT Fund size to enable viable small and medium size projects to qualify for REIT schemes
- Changes in the mandatory holding of RMCs in a REIT scheme
- Flexibility in the use of customer advances by RMC for the REIT scheme
- Permission to RMCs to arrange unsecured borrowing for the purpose of the REIT scheme
- Criteria for becoming a unitholder of a developmental scheme
- Permission to AMCs to manage REIT schemes
- Increase the number of REIT eligible cities
- Changes in the fee structure of RMCs
- Changes in the limit of unit holding by a single investor

In light of recommendations of the NBF committee and feedback from the public, the REIT regulations will be amended or replaced.

Private equity and venture capital (PE&VC)

The Private Equity and Venture Capital (PE&VC) Fund Regulations were notified in 2008 to protect investors by putting in place a trust structure. These regulations were prepared after necessary research and keeping in view local market conditions. Under the new regulations, two companies have been licensed to operate as fund management companies (FMCs).

As mentioned earlier, the SECP had constituted a committee consisting of key industry players and representative of professional bodies to review the entire NBF universe. The significant recommendations of the committee in respect of PE&VC are as follows:

- Change in the equity requirement for fund management company
- Change in the cap placed on an investor of private equity and venture capital fund
- Extension in the validity of PE&VC license for 7 years
- Indication of target areas for investment by venture capitalists by government.
- Giving tax holidays for 7 years to venture capital investment fund from the date of incorporation and to allowing private equity funds to continue to enjoy tax-pass-through status

The SECP shall consider revising the PE and VC regulations in the light of feedback from the public on the recommendation made by the NBF committee.

Voluntary pension system

The private pension funds started operating in 2007 under the 2005 Voluntary Pension System (VPS) Rules. The size of pension funds remained stagnant during the initial years mainly due to adverse market conditions, lack of awareness about the product and fiscal inconsistencies. However, since 2010 the pension funds have shown significant growth which is due to favorable market conditions, positive changes in the tax regime, launch of new pension funds and increase in number of participants (investors). During the current year, the assets of pension funds have shown remarkable progress and increased from Rs2.776 billion to Rs4.854 billion as of June 30, 2013. At present, 11 pension funds are operating in the market, being managed by 7 pension fund managers. The pension funds asset size over the years is reflected in the following graph:



Fiscal incentives

The SECP has been endeavoring to bring parity among retirement schemes and a number of measures have been introduced to this effect in the tax regime governing the VPS and other retirement schemes. Recent changes to the tax law include:

- The amount received as a monthly installment from an income payment plan will be exempt from income tax under the Second Schedule to the 2001 Income Tax Ordinance (ITO).
- Withdrawal of balance transferred to a VPS account from a recognized provident fund will also be tax exempt in terms of the Second Schedule to the ITO.

However, certain aspects are yet to be reformed. In this regard, the SECP has proposed the following changes to clarify the outstanding issues:

- Applicability of withholding tax on payments received from an income payment plan
- Applicability of withholding tax on withdrawal of balance transferred from a recognized provident fund
- To clearly provide for the tax rebate to an employee on the contribution made by an employer on his behalf in the VPS
- The 2013 Finance Bill had proposed omission of the provision allowing employers to adjust tax liability on production of evidence of investment in the VPS. If the proposal had been approved, it would have discouraged the pension fund investors. The SECP took up the matter with the relevant authorities and the proposal was withdrawn.

Regulatory improvements

The revision of investment and allocation policy: In order to allow pension funds to diversify investment portfolio and to take advantage of a new asset class, amendments were specified to the investment policy for pension funds to allow investment in commodity futures contracts being traded on Pakistan Mercantile Exchange Limited (PMEX). So far 1 PFM has sought approval for launching gold sub-fund in a pension fund.



The amendments to the VP Rules: The final draft of amendments to the 2005 VPS Rules was approved and vetted by the ministries of finance and law and the amendments to the rules were notified during the year. The amendments include allowing participants to change a pension fund in addition to a pension fund manager to make provisions for transfer of balance from approved occupational schemes to VPS and to bring the VPS rules in conformity with changes in other laws including the 1984 Companies Ordinance and the 2001 Income Tax Ordinance.

The SECP is confident that VPS has a bright future and great potential for growth given that the right types of regulatory and fiscal policies are implemented. So far, the government has been quite supportive in terms of bringing about a gradual improvement in the fiscal treatment to retirement schemes, which enabled the private pension funds to gain a foothold. The SECP hopes that government's patronage shall remain available for popularizing the culture of long-term savings through pension funds to serve dual purpose of increasing saving rates and providing social security to the senior citizens.

The SECP will continue to benefit from the experiences of other jurisdictions in the field of pension funds. To this end, it will make necessary changes to the rules, if so required, update investment and allocation policies, specify requirements for ensuring prudent management of pension assets and keep track of activities of pension fund managers through monitoring and enforcement.

Modarabas

The modarabas are the pioneering Islamic financial institutions in Pakistan. They are playing a vital role in the development of Islamic financial products, services and Islamic capital markets of the country since 1980. The modarabas are providing a wide range of Islamic financial products and services in line with the Sharia principles. They are engaged in financial services, manufacturing, trading and in service industry. It has an established legal framework which ensures Sharia compliant business and halal income to its investors. Like any other industry, modarabas create a distinctive value proposition that meets the needs of its customers.

Despite lower economic growth, the modaraba sector has positioned itself as a stable form of Islamic financial institution and has continued to perform well. As per the unaudited financial statements of 24 operational modarabas as of June 30, 2013, the aggregate paid-up fund of modarabas was Rs9,639 million. The total assets of the modaraba sector stood at Rs31,665 million against Rs29,582 million in the year ended June 30, 2012. Similarly, the total equity of the modaraba sector stood at Rs13,966 million which shows an increase of Rs1,795 million as compared to Rs12,171 million during the previous year. Last year, 18 modarabas declared cash dividend to their certificate holders ranging from 1.20% to 73.5%.

Key statistics of modaraba sector as of June 30, 2013, are given in Table A:

Table A	In million rupees
Number of modaraba companies	40
Number of modarabas (in operation)	24
Number of modarabas under winding-up	5
Number of modarabas under floatation	3
Total paid-up fund*	9,639
Total assets*	31,665
Total equity*	13,966

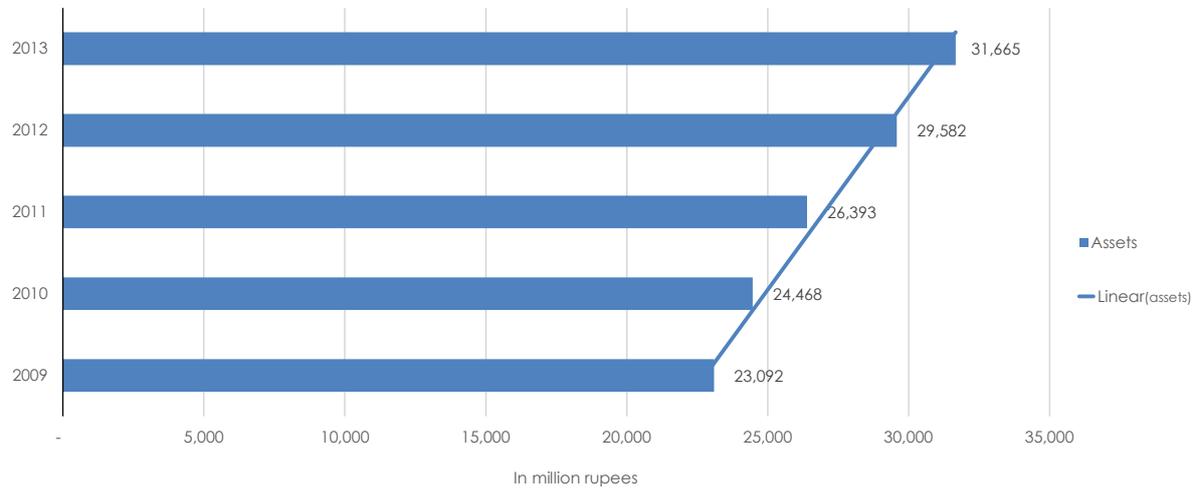
*Figures based on unaudited financial statements as of June 30, 2013.

The major sources of funds for modarabas consist of equity and borrowing from banks and financial institutions mostly on musharakah basis. The funds generated by modarabas through issuance of certificates of musharakah amounted to Rs7,263.33 million. The deposits received from individuals stood at Rs4,677 million or 64.40% of the total deposits. The funds raised through the said sources were utilized mainly in ijarah financing, extension of musharakah, murabaha and ijarah facilities and investment in Sharia-compliant securities listed entities.



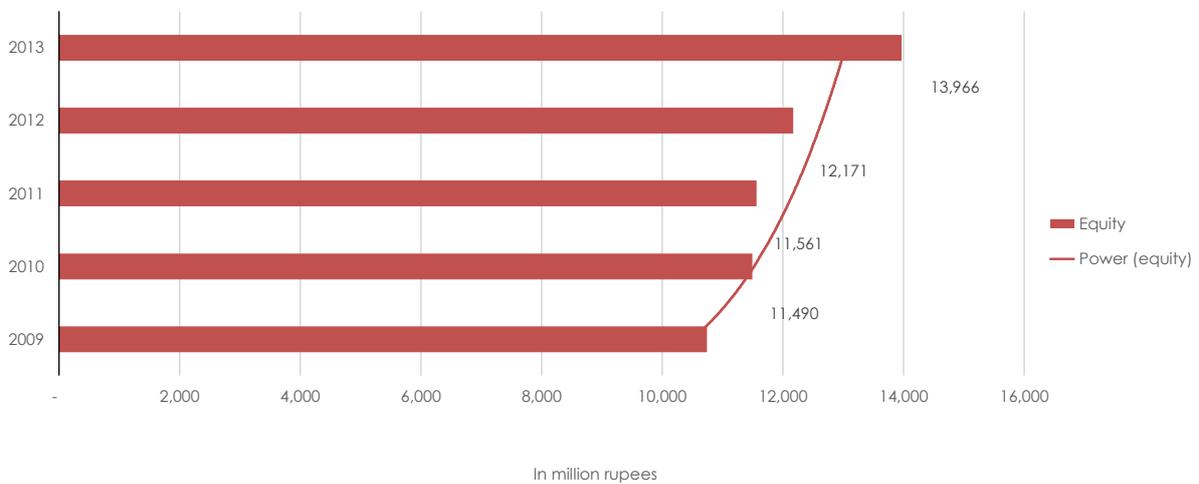
The consistent growth exhibited by the modaraba sector can be seen through the graphical representation given below:

Trend in assets of modaraba sector



The growth in the modaraba sector has not compromised its profitability and hence we can see a similar trend in total equity of the modaraba sector:

Trend in equity of modaraba sector





The detailed financials of modarabas for the year ending June 30, 2013, are as under:

Sr. No	Name of modaraba	Total assets	Paid-up	Equity	Dividend for 2011-12
1	Allied Rental Modaraba	3,262	975	2,190	30% (cash) 20% (right) 10% (bonus)
2	B.F. Modaraba	126	75	106	5.00%
3	B.R.R.Guardian Modaraba	2,998	780	717	1.80%
4	Crescent Standard Modaraba	159	200	122	1.50%
5	Elite Capital Modaraba	185	113	129	5.50%
6	First Equity Modaraba	620	524	619	-
7	First Al-Noor Modaraba	354	210	320	8.00%
8	First Fidelity Leasing Modaraba	411	264	340	5.00%
9	First Habib Bank Modaraba	869	397	704	14.75%
10	First IBL Modaraba	218	201	171	-
11	First Imrooz Modaraba	232	30	117	65.00%
12	First Paramount Modaraba	266	76	172	21%(cash) 30%(right)
13	First Punjab Modaraba	1,606	340	78	-
14	FirstTreet Manufacturing Modaraba	1,608	1,304	1,478	6.50%
15	First Habib Modaraba	4,545	1,008	2,239	20.00%
16	KASB Modaraba	1,530	283	297	6.50%
17	Modaraba Al-Mali	228	184	168	-
18	First National Bank Modaraba	1,869	250	328	10.00%
19	First Pak Modaraba	78	125	76	1.20%
20	First Prudential Modaraba	584	872	513	3.00%
21	Standard Chartered Modaraba	6,327	454	962	17.50%
22	Trust Modaraba	422	298	295	-
23	First UDL Modaraba	839	263	610	15.00%
24	Unicap Modaraba	4	136	-0.3	-
25	First Tri-Star Modaraba	-	-	-	-
26	First constellation modaraba	-	-	-	-
	Total	31,665	9,362	13,966	-



Enforcement actions

Investors' complaints

A few complaints were received from the investors mainly about the following matters:

- Non-receipt of dividend warrants
- Delay in transfer of certificates
- Non-receipt of annual and periodical accounts
- Reservation on the performance of the modarabas

The complaints were duly taken up with the respective modaraba companies and were fully addressed.

Onsite enquiries and offsite reviews of the affairs of modarabas

Periodical onsite enquiries and offsite reviews of the financial statements of the modarabas is a regular feature which is undertaken in order to protect the interest of certificate holders and to gauge the true financial health of the modarabas. Through such enquiries and reviews the performance of the management and level of their compliance with the prevailing regulatory framework is assessed. On the basis of the onsite enquiry reports and offsite reviews, the following regulatory actions were initiated during the year 2012-13:

- Seven show cause notices were issued to the modaraba companies and their CEOs/directors. After completing due process of law, penalties were imposed on 6 management companies and their CEOs/directors to ensure meticulous compliance of the regulatory framework in future.
- In addition to the above, based on the regulatory observations and non-compliance of minor nature, explanation and warning letters were issued to a number of modaraba companies.
- In order to protect the interest of modaraba certificate holders, necessary direction under section 18A of the Modaraba Ordinance was issued to 2 modarabas and directed the modaraba companies to not to undertake the specific functions of the modarabas without prior written approval.

Criminal proceedings

Based on the onsite and offsite reviews, some of the management companies of modarabas have been found involved in mismanagement of funds of the modarabas and Sharia-non-compliant business. Therefore, filing of criminal cases against the delinquent CEOs/directors and officers of the modaraba is under consideration to stop its future happenings and to ensure that income of the modarabas remains purified.

Developmental activities

During the period under review, the following developmental activities were performed:

- **Sharia Compliance and Sharia Audit Mechanism (SCSAM)**

The sole purpose of the SCSAM was to ensure that the business of the modarabas is being managed in accordance with the Sharia principles. With the appointment of Sharia advisors, rigorous efforts were made to fully implement the Sharia compliance and Sharia audit mechanism. It is being ensured that the operations of modarabas are free from riba, gharar, qimar and support from illegal business activities. Currently, the modarabas are largely compliant with the SCSAM requirements.



- **Launch of new resource mobilization products**

In order to meet the liquidity requirements of the modarabas, the SECP has developed two new Sharia-compliant fundraising products, i.e. Certificate of Investment (Modaraba) and Commodity Finance Certificate for Modarabas, which are ready to be launched for modarabas. This will provide more business avenues for resource mobilization and to help in bringing modarabas at a level playing field with other financial institutions in the country.

- **Risk management guidelines for modarabas**

The risk management is the common greatest factor in financial decision making. Keeping in view the importance of risk management it is necessary to put in place an effective risk management system for modarabas to save them from unexpected losses. As the risk profile of Islamic financial institution is different from the conventional one, therefore, separate risk management guidelines for the modarabas have been finalized to bring uniformity in their operations and to strengthen their asset portfolio. The guidelines shall be issued shortly.

- **Introduction of new Islamic financial accounting standard (IFAS)**

In order to promote best practices in Islamic finance and to bring standardization in the operations of Islamic financial institutions, the SECP has notified Islamic financial accounting standard namely, 'Profit and Loss Sharing on Deposits' on the recommendations of the Institute of Chartered Accountants of Pakistan.

- **The concept of microfinance modarabas**

Due to peculiar nature of modarabas, a possibility has been explored to introduce a concept of microfinance in modarabas, which would enhance the existence and business of modarabas in remote rural areas and small towns. It will help in providing the microfinance to the needy people on the Sharia principles.

- **Amendments to the 1980 Modaraba Ordinance**

Keeping in view the practical difficulties and to bring operational flexibilities, a further review of the 1980 Modaraba Ordinance will be undertaken. The exercise shall be completed by keeping in view the recommendations from the modaraba sector, the NBFCs Reform Committee and existing regulatory framework of the NBFCs.

- **Review of Islamic financial model agreements**

In order to bring standardization in financing agreements in line with the other Islamic financial institutions, the existing model Islamic financing agreements shall be reviewed and appropriate changes shall be suggested to the Religious Board for approval.

- **Training workshop on Islamic finance**

The participants of the Islamic financial industry need specialized trainings on Islamic banking and finance. In order to meet the training needs of the industry, the SECP shall pursue the respective authorities of Islamic Research and Training Institute of Islamic Development Bank to provide financial assistance, technical support and cooperation in conducting a training workshop in Pakistan.

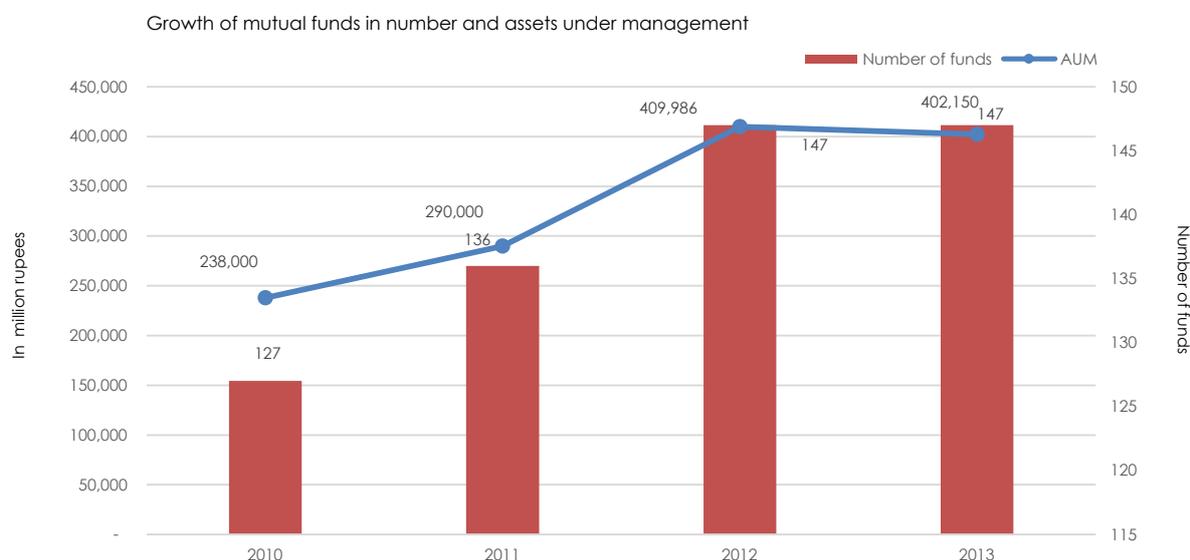


Mutual funds

The total assets of the mutual fund industry as of June 30, 2013, stood at Rs402 billion collectively managed by 24 AMCs. The total number of funds stood at 149 as of June 30, 2013, categorized into different forms primarily in income, money market and equity-oriented schemes.

The money market funds (both conventional and Sharia-compliant) continue to dominate the AUMs of the industry with the largest share of the mutual fund industry, i.e. 35.51% (June 2012, 35.2%). The equity funds (both conventional and Sharia-compliant) held the second largest market share, i.e. 33.13% (June 2012 26.2%), followed by income funds (both conventional and Sharia-compliant) with market share of 23.59% (June 2012, 21.3%).

Apart from the asset management services, discretionary and non-discretionary portfolio of different clients (both corporate and individual) are also being managed by NBFCs licensed to undertake investment advisory services. As of June 30, 2013, the total portfolio being managed by these NBFCs stood at Rs56 billion as compared to Rs44 billion as of June 30, 2012.



Achievements

In its endeavor to safeguard the interests of unitholders and to facilitate the industry, the SECP took the following initiatives during the year for the development of industry:

- The SECP continued to facilitate the unitholders of the mutual funds and AMCs by having in place a supportive policy framework to broaden the product base of the industry. A new category of fund, i.e. open end commodity schemes was introduced after thorough consultation with the market participants and in accordance with the best international practices. The commodity funds are required to invest at least 70% of their assets in commodity future contracts. The introduction of commodity funds category is expected to encourage savings culture in Pakistan as investors will be able to choose from a more diverse range of investment options and contribute to the development of the capital market.
- The dearth of true value of investment held by investors of closed-end scheme (CES) has also been among the main challenges faced by the investors. Considering its critical importance and with an objective to get true value of investment held by investors of CES, amendment to Regulation 65 of the 2008 Non-Banking Finance Companies and Notified Entities Regulations were made to remove ambiguity in continuation of a closed-end scheme (CES) by elaborating on requirements for arriving at any one of the two resolutions, i.e. conversion of the CES into an open-end fund or revocation of CES.



- The SECP extended operational flexibility to balanced funds and asset allocation funds by allowing them to take exposure in commodity future contracts. A balanced scheme can now invest up to 60% of its assets in exchange traded commodity future contracts.
- The SECP considers comprehensive disclosures requirement in constitutive documents aimed to ensure that the unitholders have adequate information to make informed investment decisions. In order to facilitate the unitholders and streamline the regulatory approvals, the SECP in consultation with other key stakeholders of mutual funds industry approved the standardized trust deed and offering document which prescribes the minimum disclosure requirements to be contained in the constitutive documents of any mutual fund scheme. The standardization is expected to strengthen the disclosure standards in the constitutive documents of mutual fund schemes.
- The SECP, vide Circular 1 of 2009, prescribed the methodology for valuation of debt securities and provisioning criteria for non-performing debt securities held by CIS. Considering the issues faced by mutual fund industry and to bring further transparency and improvement in the valuation of debt securities, certain amendments were proposed by MUFAP, which were considered in-house and approved by the Commission.

Future plans

The industry is facing variety of challenges which inhibit its development such as limited branch network, scarcity of skilled human resource, weak role of rating agencies, lack of effective debenture trustee and fair price discovery of debt securities held in the portfolio of income and other mutual funds etc. To examine these issues holistically and to determine a way forward, it was desirable that the current regulatory framework be tailored to safeguard the interests of unit holders as well as to promote development of Mutual Fund Industry. For this purpose, the SECP constituted an NBF Reform Committee, which carried out an exhaustive review of the whole business model and prevalent regime of mutual funds with a completely new perspective.

Based on the thorough review and considering the global best practices as well as the interests of all stakeholders, the committee reviewed different aspects of industry comprehensively and suggested following recommendations for the sustainable growth of mutual fund sector:

- Charging distribution expense to fund as percentage of net asset and making it mandatory for AMCs to establish their own distribution network
- Distribution of mutual funds units through the stock exchanges
- Reduction in annual regulatory fee provided more than 50% of fund's net assets are held by retail clients
- Introduction of concepts of expense ratio
- Introduction of multiple classes of unit based on the investment amount
- Improving the skill set of key personnel by setting out the minimum standards for 'fit and proper' criteria
- Introduction of code of conduct for the fund managers



Progress on annual targets

Supervision Department

Targets

- Conduct offsite examination of 100% entities of NBFC and Modaraba sector
- Compile and issue sector report of NBFCs and modarabas on monthly basis
- Development of SCD information portal to further enhance, the level of cooperation among SCD wings and the efficiency of decision making
- Improvement in the SCRS (Specialized Companies Return System) relating to filing of returns by modaraba management companies and pension fund managers
- Enhancement in the scope of offsite reviews, particularly relating to the liabilities side, internal and external audit, risk management, board's audit committee and corporate governance
- Development of review checklists, standardized formats of the offsite review reports, etc. to enhance coverage and completeness
- Conduct onsite inspection of 12 NBFCs and modarabas during the year 2012-13
- Revision of inspections operational manual for AMCs and collective investment schemes under their management
- Enforcement actions based on independent review of quarterly offsite, onsite inspections and sector reports received from relevant officers and complaints received from investors
- Review and take timely enforcement actions based on immediate action reports, trustee's observations, complaints and market intelligence
- Strategically handling of financially and operationally distressed entities, to recover from the difficult positions and honor their commitments to the general public and other market participants

Achievements

- Offsite reviews of all NBFCs and modarabas were performed during the year on a quarterly basis
- NBFCs and modarabas sector report was compiled and issued on a monthly basis
- The information portal has been developed, which serves as repository for the documents of SCD and is being actively used by the SCD officers
- The SCRS has been upgraded whereby modaraba management companies and pension fund managers are now filing their returns electronically through SCRS
- Earlier, the offsite reviews primarily focused on assessing the financial condition/performance of the entities. Now, structure of corporate governance and risk management is also assessed, though in a limited way
- Checklists covering NBFCs' regulations, formats for calling information from entities and standardized formats of offsite review reports have been developed and implemented
- During the year, 13 NBFCs and modaraba companies (8 AMCs having 52 collective investment Schemes, 4 modarabas and 1 investment bank) were inspected
- The manual for inspection of AMCs focusing on systematic documentation, minimum coverage, 100% checking of compliance with relevant regulations/laws has been developed. Further, standard format for the inspection report has also been developed
- Performed independent review of 100% quarterly offsite reports and onsite inspection reports and sector reports and appropriate enforcement actions such as compliance letters, directions, warnings, orders, were taken/issued
- Timely enforcement actions were taken against non-compliant entities on the issues highlighted by the trustees and other relevant quarters
- Closely monitored the financial position of the distressed entities for repayment of their liabilities to the general public

Highlights

- Conducted offsite examination of 100% entities of NBFC and modaraba sector
- Conducted onsite inspection of 13 NBFCs and Modarabas covering 30% of the sector size
- Developed SCD Information Portal to serve as repository for the documents issued by SCD
- Standardized the procedures of offsite surveillance and onsite inspections



Supervision Department

The Supervision Department is primarily responsible for offsite surveillance, onsite inspections and enforcement for non-banking finance companies, notified entities and modarabas.

Offsite surveillance

The department is entrusted with the responsibility for overseeing the financial health and assessing regulatory compliance level of the NBFCs and modaraba sector, on the basis of information/data received electronically through the Specialized Companies Returns System (SCRS) and through published information. The SCRS is an online system through which NBFCs, including pension fund managers, and modaraba companies file their returns on monthly basis. The submitted returns along with published information are analyzed/examined by the wing in order to prepare reviews of every entity on a quarterly basis with a view to assess the financial health and ascertain the regulatory compliance level of the entities within its domain. These quarterly reviews cover the following main areas:

- Performance of collective investment and pension schemes
- Risk concentration with respect to asset class and single entity
- Maturity mismatch on the balance sheet of depository institutions
- Examination of classified assets and recoveries made there against
- Liquidity related issues
- Assessment of capital adequacy
- Examination of profitability
- Composition of board, audit committee and other committees, etc.

In addition to quarterly review of every entity, sector reports are prepared on a monthly basis by the wing for the use of SCD and other SECP divisions/departments, covering vital statistical information on various aspects of the NBFCs and modarabas, such as:

- The overall size of the sector
- Activity wise size of the sector
- Asset allocation of mutual funds
- Mutual funds' exposure in financial institutions
- Asset, liability and equity position of asset management companies (AMCs)
- Detail of investments made by financial institutions
- Size of assets under management of AMCs
- Asset allocations and leverage outlook of investment banks, leasing companies and modarabas
- Non-performing assets of sectors
- Brief profile of pension funds, etc.

During the year 2012-13, the department covered all entities of NBFC and modaraba sectors. It also generates leads for conducting inspections, on the basis of findings made during the course of offsite examination.

The department took the following development initiatives during the year to enhance its overall surveillance capacity.

- The development of SCD information portal, which serves as repository where soft copy of documents concerning actions/reports: (offsite review reports, onsite inspection reports, enforcement letters, SCNs, orders, directions, relaxations, permissions) taken/issued by the SCD are safely warehoused. The development of this repository has resulted in enhanced cooperation among different wings of the division which would further enhance efficiency in taking decisions.
- In order to further standardize development of offsite review reports, with an objective of improving the overall quality of reports, the following tasks were accomplished:
 - Checklists covering regulations and other areas were prepared
 - Formats for seeking information from the regulated companies were developed
 - Guidelines for the preparation of offsite review reports were compiled
 - More in-depth analysis of entities and funds in question is being performed
- The arrangement in the SCRS was made through the IT Department, whereby modaraba management companies and pension funds also started filing their monthly returns through the online returns submission system.



Onsite inspection

The department conducts inspection of NBFCs and modarabas, playing a vital role in ensuring that it efficiently and effectively monitors the entities within its domain. The entities are selected on the basis of risk assessment, largely carried out by the department, which examines the available financial information of entities on continuous basis. It conducts onsite inspections, focusing on the entity's financial condition, business performance, internal controls, corporate governance and compliance with regulatory framework. The final inspection report after having discussion on the draft report with the respective entity is sent to the Enforcement Wing for further action.

During the year 2012-13, the department inspected 13 out of a total 67 entities within its domain. This includes 8 AMCs, 52 mutual funds, 1 investment bank and four modarabas, covering almost 30% of total assets of overall NBFCs and modaraba sector. Furthermore, during the year 2012-13, the manual for inspection of AMCs was revised focusing on systematic documentation. Furthermore, standard format for the inspection report has also been developed, as part of standardization of inspection function.

The major findings during the course of onsite inspections include:

- Heavy redemption by sponsors/group companies/connected person of AMC before provisioning in the managed funds, resulting in avoidance of considerable loss and shifting the burden thereof to the remaining unitholders
- Unauthorized connected party transactions, repo transactions and future transaction in fixed income securities
- Issues in agreements of mutual funds with banks concerning the rate of profit on bank deposits
- Undue favor to related bank in the form of placement of significant portion of funds at the year end, at a comparatively lower rate
- Insufficient number of independent directors on the board of directors and the board audit committee
- Weaknesses in internal control system of the entity particularly internal audit, risk management and compliance functions
- Weaknesses in the credit approval system and lack of documentation in this regard in lending institutions
- Weaknesses in investment decision making process, research and risk management function
- Inadequate provisioning of non-performing assets
- High concentration of investments by group companies in the funds under management and lower proportion of retail/individual investors
- Failure of the investment committees of various AMCs to ensure meticulous compliance of the requirements of the regulatory framework particularly relating to the documentation of investment decisions
- Inadequate compliance with the requirements pertaining to know your customer (KYC)

Enforcement

The department is vested with the responsibility for taking appropriate actions mainly on the basis of review of reports on NBFCs and NEs, prepared by officers performing offsite surveillance and onsite inspection duties. A thorough scrutiny of these reports is carried out and the observations/violations reported therein are independently assessed on the basis of relevant facts and evidence. Consequently, appropriate enforcement actions are initiated as per applicable rules and regulations on the respective observations/violations. The enforcement actions are also initiated on the basis of complaints/market intelligence/independent observations and/or issues highlighted by the trustees of the funds. The major tasks performed by the wing are as follows:

- Issuance of warning/compliance letters, directions, show-cause notices and orders
- Independent review of information submitted by entities especially the entities under severe financial and operational distress, where review is required more frequently
- Regular review of public announcements
- Cognizance of complaints received from investors/depositors/lessees, etc.

During FY2012-13, the department reviewed and independently assessed the observations/violations/issues highlighted in all the quarterly offsite reports and onsite inspection reports received from the officers assigned to offsite surveillance and onsite inspection duties, and necessary enforcement actions were taken. Monthly sector reports are also reviewed and necessary enforcement actions are taken to address the issues highlighted therein.



Based on thorough independent scrutiny of the issues, the following major enforcement actions were taken against the regulated entities:

- After due process, it was found that the management of Dawood Capital Management Limited (DCML) had not acted in the interest of the unit/certificate holders by facilitating redemptions of its own and its related parties and close relatives of the CEO prior to creating loss provision in the infected TFCs portfolio in Dawood Islamic Fund and Dawood Income Fund under its management. The orders were issued with a penalty of Rs20 million on the CEO and Rs1 million on the CFO. The DCML licenses were cancelled and the trustees were directed to revoke the funds and pay the proceeds to the investors accordingly.
- The management of Safeway Fund Limited was imposed with a total penalty of Rs1 million for non-compliance in terms of exposure breaches in the Asian Stock Fund and Safeway Mutual Fund. The management of the above funds was reminded time and again to bring the investment exposures within regulatory limits, but despite various reminders the management remained adamant with its point of view, consequently legal proceedings had to be initiated against the company and other responsible officials.
- The DCML auditors, i.e. Ernst & Young Ford Rhodes Sidat Hyder were issued with a show cause notice for not exercising due care in the audit of the funds as per applicable auditing standard.
- Owing to default status of Trust Investment Bank Limited, direction under section 282D of the Companies Ordinance, 1984, was issued, to cease raising fresh deposits with immediate effect.

Close supervision of the financially distressed entities

During the year, the department maintained its focus by closely monitoring the financial position, materialization and deviations from the rehabilitation plans of the distressed entities and remained engaged in a continuous dialogue with their respective managements and boards.

With respect to the distressed entities progress was made in these areas:

- Many NBFCs improved their financial position mainly by restructuring financial obligations, obtaining remissions/waivers from lenders, reducing administrative costs and making recoveries from existing non-performing portfolio
- Due to constant monitoring and strategic handling, some of the problematic entities have largely emerged out of problems and have started writing fresh business
- Deposits raised from individual investors have been largely repaid

Future plans

The department aims at further improving its efficiency and effectiveness through the following measures:

- Developing risk-based offsite surveillance plan, thereby making it possible to deploy available human resource towards additional tasks
- By developing a brief report of NBFCs' and modaraba sector to be posted on the SECP's website, on a monthly basis, for the use and benefit of public
- Reviewing existing SOPs/manuals/documents in use of offsite surveillance wing and making necessary amendments into them
- Arrange development of a provision in the existing SCRS through which asset management companies could report NAV and assets under their management on daily basis, to facilitate closer monitoring of mutual funds
- Further improve the SCRS
- The development of Enforcement Wing's operational manual
- The use of customized software in inspection for increasing efficiency and effectiveness, subject to favorable study in terms of feasibility and applicability
- The revision of inspection manual for lending institutions including investment banks, leasing companies and modarabas
- The capacity-building of officers through training in specific areas of supervision



Insurance Division



Insurance Division

Tariq Hussain (Director), Syed Nayyar Hussain (Director) with Kashif Siddiqee, Farrukh Majeed Qureshi, Faraz Uddin Amjad, Sabahat ul Ain, Usman Mahmood, Syed Irfan Habib, Asif Imtaiz, Nasir Khan, Hasan Mahmood, Jibran Paracha and Farhat N Mushtaq.



Progress on annual targets

Insurance Division

Targets

Policy, Regulations and Development Department

- Market Development and new initiatives
- Registration and licensing of insurers and insurance brokers
- Insurance product approval

Achievements

- Microinsurance regulatory framework
- Development of crop and livestock insurance
- Third Party Administrator (TPA) Regulations
- Centralized Information Sharing Solution for Life Insurance Industry (CISSII) Regulations
- Bancassurance regulations
- Unit-linked products and funds regulations
- Online Insurance Companies Return Submission System (ICRS)
- New takaful rules introduced
- Formation of Shariah Advisory Board
- Insurance Industry Reform Committee
- License issued to a new insurer and 9 insurance brokers
- Approval of 40 insurance products
- Revised rules for insurance brokers

Highlights

- Rules for microinsurance
- Centralized Information Sharing Solution for Life Insurance Industry (CISSII)
- Formation of Shariah Advisory Board
- Report of the Insurance Industry Reforms Committee
- Guidebook for potential investors
- Introduction of Insurance Companies Returns Submission System (ICRS)
- Revised rules for insurance brokers

Targets

Supervision and Enforcement Department

- Offsite examination and onsite inspection of insurers
- Enforcement actions where necessary
- Monitoring of renewals of insurance surveyors
- Follow-up of cases under litigation
- Resolution of policyholders' grievances
- Compliance with AML regime

Achievements

- Introduced ICRS, which is replacement of manual filing of returns
- Completed the offsite examination of annual accounts along with 9 onsite inspections
- 120 enforcement actions taken including show cause notices, warning letters and orders
- Cases pending adjudication before the courts were regularly followed up
- 308 authorized surveying officers were registered and 202 surveying companies were granted licenses
- 112 cases in respect of complaints by aggrieved policyholders were resolved



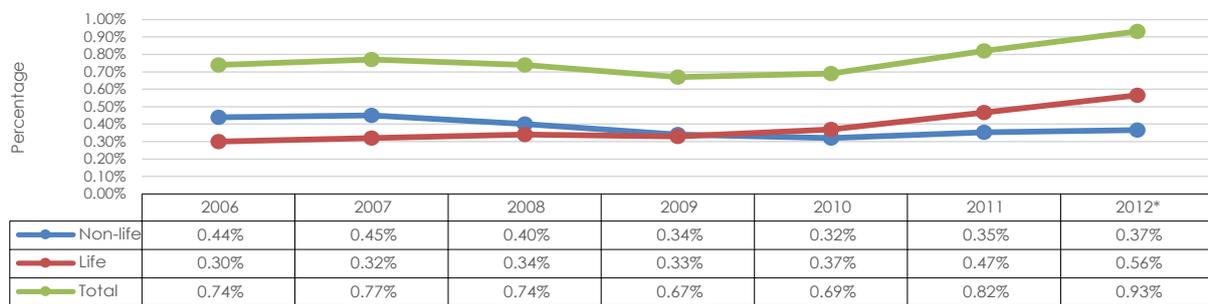
Insurance Division

Sector overview

The insurance industry in Pakistan is relatively small compared to its counterparts in the region. The insurance penetration and density remained very modest as compared to other jurisdictions while the insurance sector remained underdeveloped relative to its potential. As of December 2012, the industry's total premium revenue stood at over Rs145 billion.

The market is fairly liberalized as 100% foreign ownership and control of insurance companies is permitted with paid-up capital requirements as \$4 million, with the condition of bringing in at least a minimum of \$2 million in foreign exchange and raising an equivalent amount from the local market. The minimum capital requirements have been increased in a phased manner, though they still remain modest by international standards, at Rs300 million for non-life and Rs500 million for life insurers.

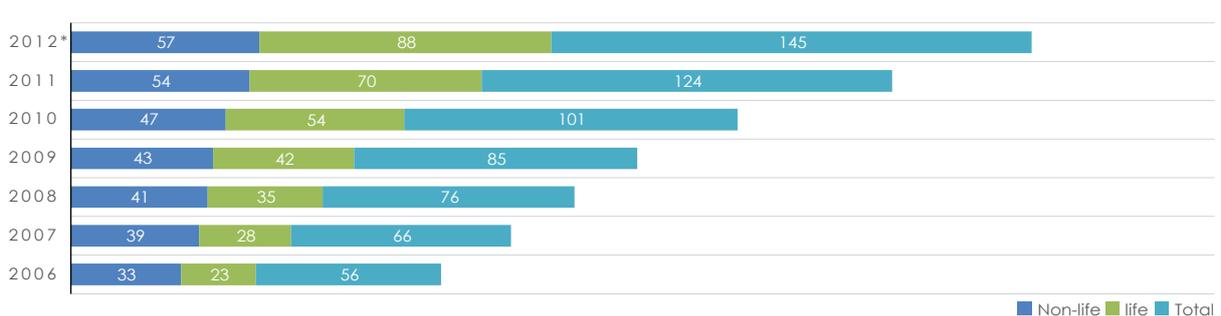
Insurance penetration in Pakistan



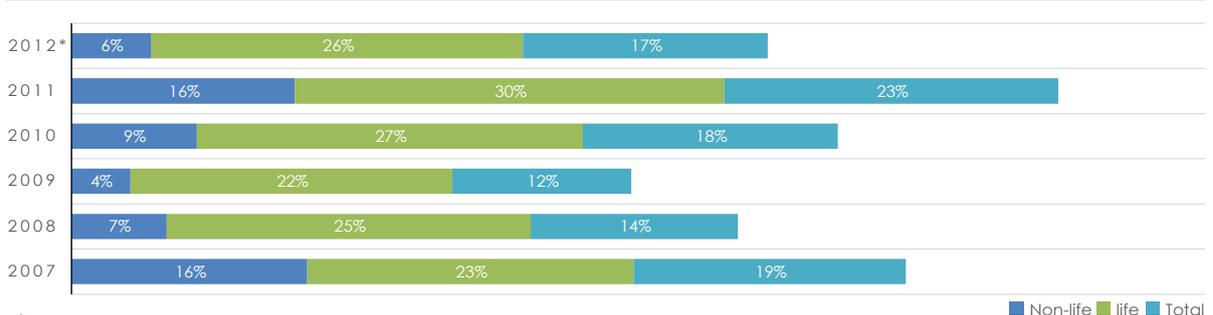
Insurance density in Pakistan



Total GWP of insurance industry in billion rupees



YoY Growth of the insurance industry



*With projected figures of SLIC and NICL



Currently, there are 40 non-life insurers operating in the market, including three general takaful operators and 1 state-owned company. Approximately 65% of the market share in gross written premium rests with the top three players. In the 2012, the sector grew by 6%, whereas the total premium of non-life insurance sector stands at Rs57 billion. In addition, the government-owned reinsurer continues to benefit from a mandatory minimum 35% share in the treaties of non-life insurers.

There are 9 life insurers, including 2 family takaful operators and 1 state-owned corporation in the life insurance sector. In 2012, the life insurance market grew by 26%, whereas the total premium stood at Rs88 billion.

Among these, there are 2 dedicated health insurance companies in the market along with 2 foreign life insurance companies and 2 non-life foreign companies. The market has witnessed introduction of new products in the lines of health, crop and livestock insurance. New distribution channels such as bancassurance, websales and telesales are also growing rapidly.

Key achievements

During the period under review, in its quest to meet the primary objectives of protecting the interests of policyholders and facilitating orderly development of the insurance industry, including takaful segment, the division focused on various areas, the brief synopsis of which is given below.

Policy, Regulation and Development Department

Microinsurance

Taking its agenda forward for creating access to insurance for a wider population in the country, especially the low-income population, the SECP continued its development work in the area of microinsurance. While working with the World Bank, under a project sponsored by the FIRST Initiative, to create an enabling environment for the provision of microinsurance in the country, a diagnostic report on the demand and supply state of microinsurance was published. The report was launched at a business policy roundtable held in Karachi on October 16, 2012, which was attended by a broad spectrum of stakeholders, including insurers, intermediaries, microfinance sector, international donor agencies, development organizations, NGOs and the relevant government institutions. The roundtable led to the formation of a working group for the development and finalization of the regulatory framework of microinsurance. The working group, led by private sector, has representation from the Insurance Association of Pakistan, the Pakistan Microfinance Network, Pakistan Poverty Alleviation Fund, UKAID and the insurers and brokers working prominently in the area of microinsurance.

The working group, after thorough deliberations and consultations, came up with the draft finalized rules for microinsurance, which were published in June 2013 in the official gazette of Pakistan to seek public comments.

Apart from the development of regulatory framework for microinsurance, the SECP is actively working with stakeholders to develop innovative solutions for the delivery of microinsurance. Certain technology-driven models have been prepared for local indigenous solutions and it is expected that with the support from international and multilateral agencies, modern intermediary models shall soon be introduced for the provision of microinsurance to the remote and rural populations. Regular interactions are underway with stakeholders including multilateral donor agencies like World Bank, Asian Development Bank (ADB) and local stakeholders such as Pakistan Poverty Alleviation Fund (PPAF), Benazir Income Support Program (BISP), Pakistan Microfinance Network (PMN), etc. In this regard, the SECP also hosted and facilitated a high-level mission from the ADB in Islamabad in May 2013 which is finalizing and recommending the national health microinsurance program for BISP. Prior to this, the SECP was also invited to make a presentation on the proposed regulatory framework of Microinsurance in the meeting of Joint Working Group and IAIS's Access to Insurance Initiative (A2ii) held in April in Bonn, Germany. The work being done by the SECP and the presentation was commended by the participants and also featured in the A2ii's quarterly newsletter.



Development of crop and livestock insurance

The crop insurance has recently taken off in Pakistan and the SECP is striving to develop comprehensive guidelines for the industry enabling it to develop this product and meet the huge demand in the market. Certain pilot projects have been designed by the stakeholders and are being executed during the current year, for which the SECP has been providing supervisory advice. These projects are expected to provide effective learning outcomes for developing guidelines for the market to pursue this product actively. Some of these projects include the ones by the Pakistan Poverty Alleviation Fund (PPAF) and the State Bank of Pakistan (SBP). The task force formed by the SBP for the development of a Livestock Loan Insurance Scheme (LLIS), of which the SECP is also an active member and heading the subgroup of Insurance, completed the task assigned to it. A finalized product has been developed and shared with the stakeholders for the rollout of the scheme, perhaps on a pilot basis.

Insurance industry reform committee

It is imperative to promote a robust and financially sound insurance industry to diversify the inherent systemic risk and to enhance the resilience of the financial system by increasing its outreach and penetration. In order to accomplish this challenging task, the SECP constituted an Insurance Industry Reform Committee comprising of industry experts, professionals and members from within the SECP. The committee is working hard to come up with specific recommendations for the growth and development of the insurance industry.

Policy advocacy

The SECP feels that the development and expansion of the insurance industry is a task that nobody can do alone, hence every stakeholder is seen as a partner in growth. From the multilateral donor agencies to the international reinsurers, multinational brokers and relevant local government/quasi-government authorities to the local insurance industry, the SECP keeps a regular dialogue with the stakeholders on emerging issues related to industry advancement. Throughout the year, many meetings were held, helping in policy advocacy and capacity building on bilateral and multilateral issues.

Licensing and registration of insurance companies

The division issued license to the Sahara Insurance Company Limited (SICL), a wholly-owned subsidiary of the Employees Old-age Benefits Institution (EOBI), to transact the non-life insurance business in the country. The SICL was registered with the SECP after it met the prescribed requirements of the law. With this addition, the total number of active non-life insurers in Pakistan reached 40, while the total number of active insurance companies (life and non-life), including Pakistan Reinsurance Company Limited, reached 50. It is important to note that the last time, a license was issued by the SECP to an insurance company, was in 2009, and that too to a life insurer. With this move, it is expected that the health insurance in Pakistan will witness a visible growth, while holistically improving insurance penetration and density figures which have remained one of the lowest in the region.

Licensing and registration of insurance brokers

During the period under review, the division renewed the licenses of 6 direct insurance brokers. Fresh licenses were issued to three insurance brokers, which raised the total number of registered direct insurance brokers to 9.

AML/CFT compliance by the insurers

The insurance companies fully followed the updated Gazette of Pakistan Statutory Notifications, which had been forwarded to the SECP by the Ministry of Foreign Affairs, demanding implementation of the sanctions (funds freeze) in its jurisdiction against the individuals and entities placed on the UN Security



Council, Al-Qaida and Taliban Sanctions Committee Consolidated List. In this context, the quarterly compliance reports by the insurers are also being monitored.

Draft Third Party Administrator (TPA) Regulations, 2013

The health insurance market in Pakistan is in its infancy as compared to other regional economies or even in comparison with other classes of insurance business in the country. The insurers in Pakistan have been experiencing higher management cost due to lack of modernized technological infrastructure, low business volume and lack of expertise. In order to address these issues, the SECP has developed the draft regulations for the introduction of Third Party Administrators (TPA). A TPA is a business unit, company or organization that processes medical insurance claims for a client or insurance company, which can also be regarded as a form of 'outsourcing' for insurance companies who farm out certain tasks and administration activities which are not part of their core competencies. The emergence of TPA in Pakistan is expected to play an important role in health insurance market in ensuring better services to policyholders. Furthermore, their presence shall address the cost and quality issues of the vast private healthcare providers in Pakistan. The TPAs are presumed to infuse new management system and enrich the knowledge base of managing health care services and costs. A draft of the proposed 2013 TPA Regulations has been prepared to seek public comments.

Centralized Information Sharing Solution for Life Insurance Industry (CISSII)

A strong need has been felt for formal and informal sharing mechanism among the life insurers that contains critical information regarding postponed or declined risk, claims, agents and group insurance, etc. Centralized Information Sharing Solution for Life Insurance Industry (CISSII) is a significant project for the insurance industry, which will provide information sharing mechanism to the life insurers so that they can make informed decisions. The overall objective of the CISSII is to enhance the policyholders' protection and promote sound development of the life insurance industry through promotion of formal information sharing mechanism among life insurers that seeks sharing of critical information to reduce systematic risk in the life insurance industry. A draft document of CISSII Regulations, 2013, has been prepared to seek public comments.

Draft Bancassurance Regulations, 2013

Bancassurance business has shown tremendous growth in the last couple of years. The SECP carried out a survey of bancassurance business in 2012 to assess the bancassurance market. As a result of the survey a need was felt to formulate a set of comprehensive regulations to provide a sustainable regulatory framework to this segment. The proposed regulatory framework aims to bring further alignment in the long-term interests of the policyholders, insurer and the agent, which is bank in this case. The SECP strives to achieve this aim by introducing various regulatory measures such as rationalization of bank's remuneration structure, minimum financial protection, introduction of commission claw-back provision, minimum surrender values, minimum financial underwriting parameters, mandatory after sale call-back requirements and introduction of a need analysis document. A draft document of Bancassurance Regulations, 2013, has been prepared to seek public comments.

Consultation paper for unit-linked products and fund regulations

The life insurance business underwritten under unit-linked form has increased considerably over the past few years, reflecting overall increase in private life insurer's market share. A need has been felt to introduce comprehensive regulations for unit-linked business to ensure the protection of policyholders' interest as well as strengthening insurer's internal controls over investment policy and processes. Separate, meetings with the life insurance industry and appointed actuaries were held to discuss the technical as well as broader aspects of these regulations. A consultation paper for Unit-Linked Products and Funds Regulations has been prepared to seek public comments.



Issuance of a circular on rate of return assumptions for life insurance and family takaful illustrations

Illustration is an integral part of the overall sales process of a life insurer and family takaful operator. It helps to improve transparency, provide better understanding of the product to policyholders and enable them to make informed decisions. Life insurance and family takaful companies use three growth rate scenarios to demonstrate projected benefits to the potential policyholders. The SECP specifies these scenarios based on long-term interest rate outlook prevalent in country. The interest rates have been cut in the last few years. So, it was felt necessary to revise these scenarios. Accordingly, a circular was issued in January 2013 and the growth rate scenarios for life insurance and family takaful illustration have been decided by the SECP to be 7%, 9% and 11% for the year 2013 and onwards.

Issuance of a circular on group insurance premium rates

The Circular 9 of 2005 on group insurance was issued requiring certification by appointed actuary in respect of group life premium exceeding Rs1 million. Due to generally large number of policies and frequent review of group insurance premium rates, the limit of Rs1 million was introduced to overcome the practical difficulties that would have been faced by the life insurers, had they been required to get certification in respect of each and every group life proposal. The SECP conducted a survey of loss ratios from 2006 to 2012. The basic objective was to study the volatility of loss ratio in group life market, according to different bands of premium. As a result of the survey, it was observed that the cumulative impact of inflation has been more than 200% and the volatility of loss ratio over premium band of 2 to 3 million rupees is much higher than other premium bands. Therefore, based on the survey results, it was decided to increase the premium limit for actuarial certification from 1 to 2 million rupees. So, in June 2013 a circular was issued as an amendment to Circular 9 of 2005.

Product registration and monitoring

The registration of insurance product is an ongoing task which includes products registration, renaming of products, alternative distribution channels approval, changes in premium rates, changes in benefit structure, review of marketing materials, review of policy documents and review of bancassurance agreement, etc. The product registration process has been streamlined and during 2102, 40 products were registered including the above changes. Furthermore, a comprehensive inventory of products has been prepared for all the products, which have been registered by the SECP, to the extent of available data. In addition, in order to ensure compliance with Circular 18 of 2011, regarding claims and product-related information on insurers' websites in both English and Urdu, non-compliance letters were issued to all the life insurers, which later provided the required information on their websites.

Supervision and Enforcement Department

Online Insurance Companies Return Submission System (ICRS)

In order to facilitate the insurance industry in submitting the regulatory returns required under the applicable insurance laws, the SECP has introduced an online regulatory returns submission system, the Insurance Companies Return Submission (ICRS) system, which has been implemented since July 2012 for both life and non-life insurers. Orientation workshops were also conducted to educate the insurers about the new system in Karachi and Islamabad, covering insurers in the south and north regions respectively.

Offsite examination/onsite inspection of insurers

The division conducted offsite examination of all life and non-life insurers, including family and general Takaful operators, during the course of which various non-compliances of such regulatees were referred to the Enforcement Wing for appropriate actions. Nine onsite inspections of insurers/takaful operators were also carried out resulting in referral for required enforcement actions.



Issuance of NOCs under Insurance Companies (Sound and Prudent Management) Regulations, 2012

Since the promulgation of new regulations, the division has been issuing NOCs under the 2012 Insurance Companies (Sound and Prudent Management) Regulations to implement fit and proper criteria for the directors and CEOs of the insurers. The regulations require the SECP's prior approval for the newly appointed directors and CEOs of every insurer. The SECP issued various NOCs after carrying out an independent and objective evaluation of the suitability of such individuals to perform their duties.

Issuance of permission of acquisition of more than 10% share in the Insurance Companies under section 67 of the 2000 Insurance Ordinance

The Supervision Wing has processed and approved 2 applications received under section 67 of the 2000 Insurance Ordinance for acquisition of more than 10% shares in the insurance companies.

Shariah Advisory Board

Under the provisions of the 1997 SECP Act, the SECP has approved and announced the formation of the Shariah Advisory Board. The board comprises of 9 members, including renowned Islamic scholars, a lawyer, an accountant and 2 SECP representatives. The primary goal of the board is to ensure compliance of regulated entities with the Islamic covenants such as portfolio purification, selection of investment and product design, monitoring and management of strategies and ensuring compliance to Islamic guidelines.

Knowledge sharing session with approved auditors under section 48 of the Insurance Ordinance

A knowledge sharing session was arranged by the division where a presentation was delivered to the partners of all auditing firms which are on the SECP's approved list of panel of auditors. Experiences from offsite examinations, analysis and onsite inspections were shared with the approved auditors. The auditing firms appreciated this. It helped out in bridging the gap between the regulators and the audit firms while having the same objective of ensuring the compliance and to remove the misstatements and discrepancies.

Accounting regulations and formats for published financial statements and regulatory returns for conventional life and non-life insurers

With a mandate from the SECP, the insurance subcommittee of the Institute of Chartered Accountants of Pakistan (ICAP) comprising of senior audit partners, actuaries, SECP representatives, Insurance Association of Pakistan (IAP) and professionals from the industry have devised accounting formats for life and non-life insurers in consonance with international best practices. The new accounting regulations and its formats were issued to elicit public comments and are about to be finalized. Once prescribed, they shall remove the current gaps and discrepancies and bring about more transparency and improved disclosures by the insurers. This will also be in consistent with the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS).

Implementation of new solvency regime

Introduced in early 2012, the new solvency regime is aimed at progressively improving the financial stability of insurers and reducing the risk of volatility in the prices of certain assets, such as equities and properties, which threaten their solvency. Barring a few limits which are allowed to be implemented in a phased manner, the rules came into force with immediate effect.

Enforcement actions

A snapshot of enforcement actions taken by the division against its regulated entities during the period under review is as follows:

Enforcement areas	Numbers
Assessment of offsite report	92
Enforcement actions	48
Show cause notices	43
Warning letters	25
Orders (Enforcement)	5
Orders (Federal Insurance Ombudsman)	86
Hearing notices issued to insurers	6
Appeals against Federal Insurance Ombudsman's orders/hearing conducted	48
Policyholders' complaints handled	132
Total	485

Surveyors' licensing and registration

A snapshot of the registration and licensing of authorized surveying officers and insurance surveyors, for the period under review is given below:

Description	Numbers
Renewal of authorised surveying officers	308
Renewal of surveying companies	202
Total	510

Collection and reconciliation of the annual supervision fee

The division collected about Rs202 million on account of the annual supervision fee for the period under review. The process involves issuance of a circular for reminding the insurers about their obligation to pay the said fee by January 15. Subsequently, reconciliation exercise was made and shortfalls or reconciliation issues were communicated to the respective insurers for any differentials thereon. Summary of sector-wise recovery made in respect of the Annual Supervision Fee for the period under review is as follows:

Sector	Life (In million rupees)	Non-life (In million rupees)	Total (In million rupees)
Private sector			
- Conventional insurers	45.4	86.6	132
- Takaful operators	4.4	2.2	6.6
Public sector	50.0	13.2	63.2
Total	99.8	102.0	201.8

Reconciliation and recovery of the federal insurance fee

The division verified and reconciled about Rs536 million paid by the insurance industry, 36 active non-life insurers, in the national exchequer as federal insurance fee for the calendar year 2012.

Web-based insurance surveyors' licensing and registration system

The division launched a web-based insurance surveyors' licensing and registration system. The in-house developed automated system named eInsuranceSurveyors has been made effective since March 2013, following which no paper-based applications for the registration and licensing of insurance surveyors are now being processed. To use the system, each applicant or surveyor is required to have a valid eServices login ID and password coupled with a valid digital signature. Digital signatures can be obtained from the National Institutional Facilitation Technologies (NIFT). In this way, the licensing and registration system is expected to become more cost-effective, efficient and speedier.



Eligibility and fitness test of authorised surveying officers

In order to introduce greater transparency in the processing of surveying licence, the division has introduced a testing mechanism in collaboration with the Pakistan Insurance Institute (PII). In this context, the PII conducted the first series of examinations in May 2013 to test the eligibility and fitness of authorized surveying officer (ASO) in various classes of insurance business. The names of successful candidates were announced in June 2013.

Future plans

Policy, Regulation and Development Department

Development of health insurance

Out of country's total population of about 180 million, reportedly only 1 million people are covered under the commercial health insurers. Due to inadequate focus on retail health insurance products and distribution mechanisms, this huge market remained untapped. Some of the reasons for low health insurance penetration include lesser investment allocation by the health insurance industry towards development of qualified professionals, processes and technology that would otherwise lead to industry's growth and profitability. The division has been encouraging the insurers to do a pilot project on health insurance in partnership with contemporary distribution channels, with emphasis on the need of creating innovative business models and leveraging the use of technology. Stakeholder dialogues have been initiated and guidelines for health insurance are also being developed in consultation with the industry.

Development of catastrophe insurance schemes

The economic shocks due to the recent catastrophes faced by the country, including floods, where in the absence of proper insurance coverage, the economic losses suffered by the masses had adverse effect on the overall economy, have necessitated the development of catastrophe insurance schemes which are quiet popular around the world. The SECP is working to help the stakeholders for developing such schemes and participated in various forums organized by the stakeholders, including National Disaster Management Authority (NDMA), the World Bank and the Climate Development Knowledge Network (CDKN). A national level scheme is in the process of development for which the SECP is committed to providing full support.

Review and development of insurance and reinsurance broking regulations

The rules for insurance brokers were for the first time introduced in Pakistan in 2002 under various provisions of the 2000 Insurance Ordinance. The existing rules for insurance brokers were notified in two sets of rules, i.e., the 2002 Insurance Rules and the 2002 SECP (Insurance) Rules. While the current regulatory regime for insurance brokers has remained modest and limited to direct insurance broking business only, the SECP is embarking on a review of the framework in light of evolving market practices and global regulatory developments while also taking the reinsurance broking business into its regulatory ambit. The review will primarily take into account the revised paid-up capital requirements, fit and proper criteria and requirements for reinsurance brokers licensing. The SECP, as always, intends to work closely with the industry on the review, and will ensure the participation of the industry through working groups, quantitative impact studies and consultation feedback. In this context, consultation paper has been drafted and will soon be circulated for the comments of stakeholders.

Development of reinsurance regulations

Currently in the insurance regulatory framework, there exists no specific detailed regulations for the reinsurance business which is depriving the insurance and reinsurance entities from the modern and best practices. In this pursuit, the SECP is currently working to introduce specific regulations for reinsurance which will enhance the transparency and disclosure requirements and promote the healthy development of the reinsurance markets in the country.



Online system for facultative reinsurance approvals under Rule 7 of the 2002 Insurance Rules

An online system is being developed to monitor and manage the process of facultative reinsurance permissions which are issued by the SECP under Rule 7 of the 2002 Insurance Rules. With the increasing quantum of work, there is a need that through this system the calculations and processing of the request and permissions are processed electronically and the record of which is also regularly maintained and accessible. The introduction of this system is expected to greatly reduce the turnaround time, reduce the stationary and snail mail costs and minimize the chances of human error.

Rationalization of maximum management expense limits

The division has earlier specified the maximum management expense limits for the life insurers that take into account the year of operations and type of business at aggregate statutory fund level. The maximum management expense limits framework is a strong regulatory tool that envisages the policyholders' protection by capping the maximum expenses, which can be charged to policyholders' funds. These limits were specified in 2006 and further revised in 2011. A strong need has been felt to rationalize these limits further due to the various trends in the insurance industry that emerged subsequently such as emergence of bancassurance and telecommunication distribution channels and enhanced level technological developments. It plans to carry out a market assessment and rationalize these limits in the coming year.

Market conduct guidance for group life insurance sector

Group life insurance contracts are offered on an yearly renewable term and group underwriting basis. The group life market has witnessed fierce competition over the few years and the profitability of insurers has deteriorated. There is in no form the information on sharing arrangement between the life insurers to take informed pricing decisions when competing for medium to large group life clients. The insurers have to somewhat compromise on underwriting principles which pose a threat to their solvency. All this suggests the regulatory intervention through issuance of some regulatory guidance or regulations to restore the dynamics of well-functioning group life market necessary for policyholders and the insurers as well. The SECP intends to carry out a market survey and issue a regulatory directive in the coming year.

Life insurance product submission mechanism

The 2000 Insurance Ordinance describes the broad requirements to be submitted by a life insurer intending to carry on life insurance business. Currently, the life insurers are submitting their products on their own format and as such there is no standardized format. It cause delay in product registration. The division plans to prescribe detailed product submission requirements after considering a holistic view of section 6(8) of the 2000 Insurance Ordinance, Rule 26(1)(a) of the 2012 Takaful Rules, the 2010 Guidelines for Bancassurance—and the 2009 Guidelines for Life Insurance and Family Takaful Illustrations and Circular No. 6 of 2006 as amended by Circular No. 7 of 2011 on Maximum Management Expense Limits for Life Insurers under section 22(9) and 23(9) of the 2000 Insurance Ordinance.

Regulatory guidelines for IBNR

Policyholders' liabilities are of paramount importance during the determination of solvency and operational performance of an insurer. The estimation of liabilities, which have been incurred but not reported (IBNR) involves considerable judgement and estimation. The SECP envisions carrying out a survey of insurers' policies and practices relating to estimation of policyholders' liabilities on account of IBNR and issue a regulatory guidance to bring standardization and remove subjectivity in its estimation.



Future plans

Supervision and Enforcement Department

Accounting regulations and formats for published financial statements and regulatory returns for general and family takaful entities

The SECP and ICAP are also in the process of scrutinizing the Islamic Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI), which will be tailored according to local requirements while also covering the International Financial Reporting Standards (IFRS).

Development of analytical tools in the ICRS system

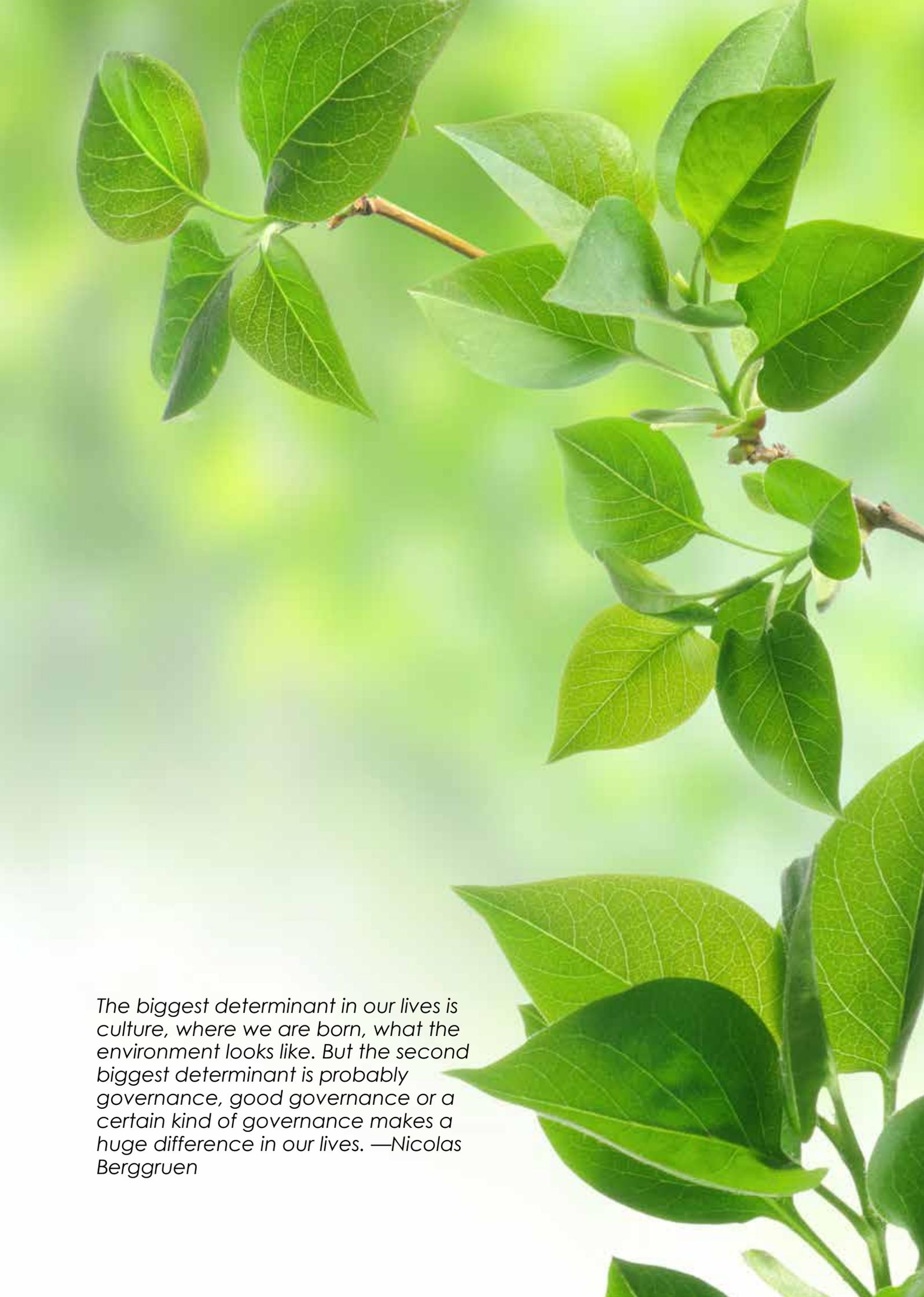
The division is developing analytical tools in the ICRS system, which shall enable it to carry out an objective assessment of the returns filed through the ICRS system and shall also facilitate in analysing trends in the insurance industry. Furthermore, the system shall also facilitate the division to develop early warning system for the insurance industry in Pakistan.

ICRS to cater takaful operators' submission of regulatory returns

It is planned to extend the services of the ICRS system to the takaful operators also enabling them to submit their regulatory returns to the SECP electronically, which will not only bring efficiency in the process of compiling information and but also enable taking appropriate regulatory action on timely basis.

SAARC Insurance Regulators Conference 2014

The department plans to hold the Second SAARC Insurance Regulators Conference in 2014 in Islamabad. The conference aims at increasing the coordination between the insurance supervisors of the SAARC countries.



The biggest determinant in our lives is culture, where we are born, what the environment looks like. But the second biggest determinant is probably governance, good governance or a certain kind of governance makes a huge difference in our lives. —Nicolas Berggruen



Chairman's Secretariat



Chairman's Secretariat

Aamir Khan (ED/HOD) with Khalida Habib, Shaukat Mahmood Malik, Sajid Gondal, Imran Ahmad, Umar Yahya, Salman Hayat and Shakil Chaudhary.



Transformation and Knowledge Management Department

Arshad Javed Minhas (ED) and Aamir Waheed (Director) with Maria Bostan, Uzma Khan, Muhammad Shafiq Rana, Furqan Uddin Faisal, Nabila Aslam and Harima Mubeen.



Chairman's Secretariat

The Chairman's Secretariat comprises of 4 departments:

1. Strategy Development and External Relations Department (SDERD)
2. Local and Bilateral Relations Department
3. Media and Corporate Communications Department
4. Transformation and Knowledge Management Department

Strategy Development and External Relations Department

The department is mandated to coordinate and manage all work related to standard setting organizations for the SECP's adherence to international standards. It liaises with multilateral agencies such as the World Bank, ADB, DFID, USAID, World Bank, IFC, and JICA for negotiation of new technical assistance projects and execution of TA projects, conducts research and provides strategic analysis to frame the SECP's regulatory policies in line with best international practices, facilitates third party regulatory assessments and manages all domestic engagements of the SECP, pertaining to local government and regulatory bodies.

Key achievements

Coordination with international standard setting bodies

The SECP is a member of international regulatory standard setting bodies for the securities, insurance and pension sector, i.e. the International Organization of Securities Commissions (IOSCO), International Association of Insurance Supervisors (IAIS) and International Organization of Pension Supervisors (IOPS) respectively, and is actively involved in their activities through its participation to various working groups and committees at these forums. Furthermore, the SECP is also a member of the Organization of Islamic Cooperation's (OIC) Committee for Commercial and Economic Cooperation (COMCEC) and the current chair of the South Asian Securities Regulatory Forum (SASRF).

IOSCO

SECP self-assessment of IOSCO Principles

During the year, the SECP undertook a self-assessment of the revised IOSCO principles. The 38 IOSCO Principles are one of the key standards and codes highlighted by the Financial Stability Board (FSB) to ensure sound financial systems in a jurisdiction thus requiring priority implementation. The IOSCO member jurisdictions have endorsed their commitment to the objectives and principles and are required to review implementation of these principles under their respective relevant legal framework.

The SECP formed a cross-departmental committee to undertake the IOSCO self-assessment. The committee has completed the groundwork on all principles and will prepare a final report for submission to the SECP by the end of July 2013. The report, once approved by the Commission will be submitted to the IOSCO Assessment Committee (AC) for review. The scope of the AC review will include all 38 IOSCO principles and will involve assessors from the AC traveling to Pakistan in order to conduct the review firsthand.

The SECP was last assessed against the 30 IOSCO Principles in 2004 by the World Bank under the World Bank Financial Sector Assessment Program (FSAP). The implementation status as per the assessment was as under:

- Fully implemented: 4 Principles
- Broadly implemented: 7 Principles
- Partly implemented: 17 Principles
- Not implemented: 2 Principles

IOSCO Assessment Committee

In 2012, the IOSCO established the AC to drive IOSCO's key strategic goal of global implementation



of IOSCO Standards and Principles. The AC has 30 members including the SECP and is currently being headed by the Australian Securities and Investments Commission. The AC aims to assess implementation of the IOSCO Principles and Standards, and promote effective implementation of these Principles and Standards across the IOSCO membership. The primary responsibilities of the AC include:

- a) Conduct thematic reviews of particular IOSCO Principles and Standards across the IOSCO's membership. These reviews provide implementation status of specific principles and assist to identify implementation gaps, good practices and issues experienced during implementation. As a first mandate under the thematic review program, the AC is completing thematic review of Principles 6 and 7.
- b) Conduct Country Reviews of Self-Assessments prepared by the IOSCO members about the implementation of IOSCO Principles. The review provides an independent and objective evaluation of the status of implementation of IOSCO's Principles in the jurisdiction and recommends a roadmap to address any gaps in implementation.
- c) Maintain and periodically update the IOSCO Principles and related methodology. The ECP established an inter-departmental committee to undertake work with the AC. The committee contributed to the work of the AC, including AC strategic documents, thematic review of the IOSCO Principles on Systemic Risk and Regular Review of Regulatory Ambit (Principles 6&7) and is part of the AC work streams on:
 - Revision of e-Methodology
 - Marketing Strategy for the AC

IOSCO Committee 3

During the year, the SECP became the vice-chair of IOSCO Committee 3 (C3) on Regulation of Market Intermediaries. The status of the vice-chair was handed over to the SECP from the Financial Services Commission Korea for a period of one year, during the C3 meeting in Seoul on April 18, 2013.

The SECP had previously been the chair of the IOSCO Emerging Markets Committee (EMC) Working Group 3 on Regulation of Market Intermediaries since 2003. However, due to a change in structure of IOSCO, the Working Groups of the EMC and IOSCO Technical Committee had merged to form one policy committee across the entire membership. As chair of the EMC Working Group 3, the SECP has worked in the following areas:

- Cross-border Activities of Market Intermediaries in Emerging Markets —March 2005
- Guidance to Emerging Markets Regulators Regarding Capital Adequacy Requirements for Financial Intermediaries —December 2006.
- Guidelines for Minimum Entry Requirements and Continuous Risk-Based Supervision for Market Intermediaries—September 2009
- Guidelines for Regulation of Conflicts of Interest Facing Market Intermediaries —October 2010
- Guidelines for Regulation of Nominee Accounts in Emerging Markets —in October 2011

In its new position as the vice-chair of IOSCO C3, the SECP is currently working on the following mandates, which are intended to be completed within the next financial year.

- Study on the use of social media by market intermediaries in capital markets
- Automated tools by market intermediaries in capital markets relevant to the provision of advice

Requests for Information Under IOSCO MMoU

The SECP is a full signatory to the IOSCO Multilateral Memorandum of Understanding (MMoU), which is an enforcement cooperation mechanism between all IOSCO members that are signatories to the MMoU. The MMoU is an implementation tool for effective enforcement of securities laws against offences and empower the signatories' transnational oversight and cooperation. During the year, the SECP requested information on investigation matters from several foreign jurisdictions, including, counterpart regulators from the United States, United Arab Emirates, Switzerland, Germany, Panama and Curacao, an island in the southern Caribbean Sea. The SECP successfully received information from most of the jurisdictions.



IAIS

MMoU with IAIS

The IAIS Multilateral Memorandum of Understanding (MMoU) is a global framework for cooperation and information exchange between insurance supervisors. It is a statement of its signatories' intent to cooperate in the field of information exchange, as well as procedures for handling information requests pertaining to the insurance sector. The SECP has submitted the SEC Pakistan's MMoU application which contains the SECP's response to the questions provided in the MMoU application and provides details about the SECP's regulatory regime over the insurance sector outlining its ability to comply with the provisions of the MMoU. The IAIS Secretariat has initiated the process for review and approval of the application by the IAIS Implementation Committee.

Committee on Commercial and Economic Cooperation (COMCEC)

Task force on market development

During the first COMCEC Capital Market Regulators Forum (CMR) meeting held in Istanbul (September 26-27, 2012), the SECP was tasked with chairing the task force on market development with the SEO Iran as vice-chair of the task force. The task force aims at reinforcing the capital market regulators to support financial markets in operating effectively for the best interests of investors and market participants.

The SECP along with the SEO Iran and the COMCEC secretariat in Turkey decided that 2 different mandates would be undertaken within the 2013 calendar year.

- Development of Capital Market Infrastructures
- Transparency Requirements and Public Disclosure Systems in OIC member states

For this purpose, the SECP formed a cross-departmental internal committee to complete the 2 areas of the mandate. The committee prepared the terms of reference and survey questionnaire for the first mandate. The responses to the survey were received from 9 different jurisdictions, based on which a final report is in the process of being developed and is expected to be completed by the end of July 2013. The emphasis of the report is primarily on the following:

- to assist the members of the COMCEC Capital Markets Regulators Forum understand different practices and regulations concerning capital market infrastructures in place in member jurisdictions;
- to identify useful regulatory elements that could be adopted by members, that may intend to improve their regulatory frameworks and infrastructure in the capital markets; and
- to develop recommendations or best practices for appropriate infrastructure development that will lead to enhanced investor protection, reduced bottlenecks and better functioning of the capital markets as a whole.

The focus of the report is on the development of a harmonized regulatory framework for COMCEC member countries which will facilitate regional financial integration and lead to broadening and deepening of capital markets in COMCEC member states.

In addition, the SECP has also developed TORs for the second mandate on transparency and disclosure, which is expected to be completed by November 2013. The aim of the mandate will be:

- to assist the members of the COMCEC Capital Markets Regulators Forum understand different practices and regulations concerning transparency and disclosure requirements in place in member jurisdictions;
- to identify useful regulatory elements that could be adopted by members, that may intend to improve their regulatory frameworks and different approaches used by members keeping in to account the evolving technological spectrum and how it effects or aids transparency and disclosure requirements as well as requirements for confidentiality; and
- to develop recommendations or best practices for appropriate disclosure requirements which will lead to enhanced investor protection and access to all relevant information for the general public.



South Asian Securities Regulatory Forum (SASRF)

The SECP is currently the chair of the SASRF, which includes capital market regulators from within the SAARC region, i.e., Afghanistan, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka. The SASRF was established in 2005 as a regional network of capital market regulators. A multilateral MoU was signed by all capital markets regulators within the SAARC region, thus institutionalizing the forum. The SASRF aims at promoting cooperation among SAARC securities regulators, facilitating sharing of information and advancing the agenda of regulatory harmonization of policies and financial reporting systems to the extent feasible.

As the chair of the forum, the SECP had called for a meeting to be held in Lahore on April 8-9. Apart from internal matters of the SASRF, the meeting was to focus on 3 main themes and involve public participation as well as reputable international speakers on the subjects mentioned below:

- Building the Commodity Market Ecosystem
- Developing SME Stock Exchange
- Debt and Derivative Market Developments

Unfortunately, several jurisdictions were unable to receive travel approval for Pakistan, and the meeting was postponed. The meeting is now expected to be held by the end of 2013 or start of 2014.

Anti-money laundering

The SECP is responsible for strengthening the anti-money laundering (AML) regime in Pakistan in the areas within its ambit, including NBFCs, brokers, insurance companies and the NPO sector. It liaises with the MOF, the Financial Monitoring Unit (FMU), and the Asia Pacific Group (APG) to deliberate on international AML requirements and assists in implementing the measures.

The SECP significantly contributed to the drafting the Pakistan National Strategy for AML/CFT (Strategy) regime. This strategy will ensure effective implementation of the AML action plan agreed upon by all stakeholders, including law enforcement agencies, financial sector, regulatory institutions, i.e., the SECP, SBP, and the private sector. The strategy aims at reforming legal framework of AML/CFT, improving reporting, regulatory and disclosure regime, identifying AML/CFT risks and improve capacities and skills of stakeholders. It requires the SECP to effectively implement the AML/CFT regime. After NEC's approval it will be shared with the FATF/APG as Pakistan's commitment to achieving full progress in strengthening its AML/CFT regime.

During the year, the SECP came up with a roadmap to minimize the gap between NBFCs, brokers and insurance sector, as identified by Pakistan's Mutual Evaluation (ME) on AML/CFT regime, jointly conducted by the APG and the World Bank in 2009.

Moreover, the SECP has initiated the process of entering into MOUs with the European Securities and Market Authority (ESMA) and International Association of Insurance Supervisors (IAIS).

Local and Bilateral Relations Department

The SECP regularly coordinates with various local, multilateral and bilateral agencies both on international and national level for execution of its projects and establishment of linkages for cooperation and technical assistance.

SECP-SBP coordination committee

In an attempt to increase regulatory cooperation for the entire financial sector, the SECP and the State Bank of Pakistan (SBP) held their 21st Coordination Committee Meeting in Karachi on February 25, 2013. The meeting was attended by senior management of both institutions and discussed various interconnected issues concerning both regulators.



MoU with ESMA

The MoU on consultation, cooperation and exchange of information related to supervision of Alternative Investment Fund Managers (AIFM) between the SECP and European Union authorities for supervision of AIFM aims to establish a harmonized framework for monitoring and supervising the risks that alternative fund managers pose to their investors, to other market participants and to the stability of the financial system. The ESMA's Board of Supervisors has approved the AIFMD MoU with the SECP. Twenty EU authorities have already signed the MoU, on the margins of the meeting of the Board of Supervisors of ESMA while signing of remaining authorities is in process after which the MoU will be forwarded to SECP for signature.

Training and capacity building

The SECP has identified its training needs (on AML/CFT) to the World Bank, in the sectors regulated by the SECP, including the NBFC, insurance and brokerage industry. A training session on AML/CFT topologies was organized by the World Bank in November 2012, and June 2013, whereby training was imparted to the SECP's employees and the industry participants.

Statistics during last one year						
Sr. No.	Sector	Number of STRs received and disseminated	Number of AML/CFT investigations	Amount of seizures and confiscation	Number of AML supervisory inspections and statistics	International cooperation
1	Brokerage	Nil	Nil	Nil	25	Nil
2	NBFI	Nil	Nil	Nil	13	Nil
3	Insurance	Nil	Nil	2*	2	Nil

* Two policies of the EFU Life Assurance Limited were reported 'frozen' on the orders of the Anti-Narcotics Force, for the quarter ended December 31, 2012.

Cooperation with the World Bank

During the year detailed deliberations were held with the World Bank to explore the possibilities for funding for new development projects between the two organizations. The SECP agreed to move following detailed proposals for approval by the World Bank:

- The SECP's capacity building under Institutional Development Fund (IDF) Grant Funds of the World Bank
- Funding Proposal for the SECP under the South-South Experience Exchange Trust Fund of the World Bank
- Development of new regulatory regime for insurance sector under FIRST Initiative
- Establishment of a "One Stop Shop" to ease formation of companies and ease in doing business in Pakistan
- Request to the World Bank to conduct report on Observance of Standards and Codes-ROSC on Corporate Governance.

During the year, the SECP forwarded the proposals for IDF grant, funding under South-South Experience Exchange Trust Fund and FSAP mission to the Ministry of Finance for approval and onward submission to the World Bank. After approval for Ministry of Finance these proposals are now under process at the Planning Commission of Pakistan. These projects will be executed during 2013-14.

Code of Corporate Governance

After launching the revised Code of Corporate Governance on April 10, 2012, which became effective through amendment to the listing regulations of stock exchanges from April 11, 2012, the SECP launched an awareness campaign about the revised code.



The code was launched and implemented as part of the listing regulations of the stock exchanges. It was finalized after extensive stakeholder consultation both by Pakistan Institute of Corporate Governance Task Force and by the SECP. However, this consultation and coverage was more at a policy level, since the implementation of the code the SECP has been receiving numerous queries – primarily of operational nature.

Due to above and the fact that the revised code has made certain previously optional provisions mandatory and also introduced new concepts and requirements, it was felt that awareness sessions should be held at all three stock exchanges for CEOs, CFOs, company secretaries and internal auditors of the listed companies.

In collaboration with the three stock exchanges and the Institute of Chartered Accountants of Pakistan, the SECP conducted a number of awareness sessions. These sessions were attended by CEOs, CFOs, company secretaries and internal auditors of listed companies. In these sessions, the SECP highlighted the revised code and its implementation schedule. It stressed on compliance and enforcement of the code and conducted detailed question and answer sessions.

These sessions are part of the SECP's efforts to raise corporate governance standards in Pakistan and to protect the interest of minority shareholders. Apart from raising awareness, these sessions would help listed companies to ensure compliance with the provisions which have become effective and at the same time prepare and take measures for timely implementation of the provisions which will become effective at the time of next board election. It is expected that these sessions would not only lead to successful implementation of the code, but also improve the growth of the corporate sector by promoting governance regime which strengthens the rights of all stakeholders.

The SECP has also approved the Director Training Program of Institute of Cost and Management Accountants of Pakistan and the University of Lahore in December 2012. Together with the Pakistan Institute of Corporate Governance and the Institute of Chartered Accountants of Pakistan, there are now four Director Training Programs approved by the SECP.

IFC MoU

The International Finance Corporation (IFC), a member of the World Bank Group, is an international organization whose mission is to promote sustainable private sector investment in developing countries, helping to reduce poverty and improve people's lives. The IFC's PakAf Corporate Governance Project provides advisory services to improve Corporate Governance practices of companies and banks in Pakistan and Afghanistan by strengthening institutional and regulatory capacity and broadening outreach to specific segments of the market.

In April 2013, the IFC joined hands with the SECP to organize a training session on the Code of Corporate Governance covering both listed companies and state-owned enterprises (SOEs). This session was attended by participants from stock exchanges, SOEs, listed companies, ERU, line ministries and relevant internal departments are being invited. The SECP and IFC signed an MoU for cooperation and information sharing in June 2013. This MoU is a stepping stone to expand the SECP's relationship with the IFC on corporate governance through a cooperation agreement covering all aspects of the subject in 2013.

Improvements in fiscal regime for the sectors within the SECP's ambit

The SECP in continuation of its strategy encompassing continued reforms in the capital markets and corporate sector, deepening of structural reforms through removal of anomalies constraining economic activity, and to provide a level playing field to all the stakeholders, recommended various amendments to the 2001 Income Tax Ordinance and the 2005 Federal Excise Act. Significant amendments, which were notified through the Finance Act 2013-14, are as follows:

- **Relief to the corporate sector:** The rate of tax for non-banking companies has been reduced from 35% to 34%. and it will be gradually reduced to 30% over five years. The reduction in corporate tax is a positive move for the profitability of the companies and hence performance of the stock market
- **Dividend tax:** Tax on dividend income and income earned by money market funds for banks remained intact at 25%, against hopes of increment to 35% while for other corporates remained 10% against hopes of increments to 35%.



- **Tax reforms:** The transactions of margin financing, trading financing and lending are out of the scope of withholding tax under section 233AA of the Income Tax Ordinance. Now these transactions shall be subject to withholding tax @ 10% of the profit/markup/interest earned. The tax shall be collected by NCCPL from the margin financiers, trading financiers and lenders.

Future plans

IOSCO: As member of the IOSCO Board, vice-chair of Committee 3 and member of various other committees of the IOSCO, the SECP will continue to be an integral part of the IOSCO's policymaking and support IOSCO's progress towards developing a global framework for securities markets.

Self-assessment of IOSCO principles: IOSCO's 38 Principles of securities regulation provide a yardstick to facilitate member jurisdiction's monitoring and compliance and also measure progress of member jurisdictions towards effective regulation. The SECP will complete its self-assessment against IOSCO's principles within the year for submission to the IOSCO Assessment Committee which will provide a roadmap to the SECP towards adopting benchmark global regulatory standards.

IAIS MMoU: Approval by the IAIS implementation committee of the SECP application to become signatory to the IAIS MMoU

Self-assessment of international regulatory standards for pension: The SECP will initiate assessment of international regulatory standards for pension.

Addressing the gaps identified in implementation of IAIS core insurance principles: The SECP will move forward to take appropriate measures to address the gaps identified in the assessment report. Also during the next year a revised self-assessment will be conducted once the identified gaps are removed.

COMCEC: The SECP will complete both its mandates on Capital Market Infrastructure and Transparency and Disclosure and submit to the forum for publishing as the COMCEC reports.

New Projects with donor agencies

The SECP's proposal for IDF grant, funding under South-South Exchange Trust Fund and FSAP mission will be negotiated with the World Bank for approval.

The proposals for development of new regulatory regime for insurance sector, development of crop insurance scheme and catastrophe risk insurance and establishment of a "one stop shop" to ease formation of companies will be submitted and negotiated with the World Bank.

Bilateral MoUs: The SECP plans to improve cooperation with counterpart regulators through signing of bilateral MoUs with 10 counterparts.

ROSC: The SECP will initiate Report on Observance of Standards and Codes-ROSC on Corporate Governance with the World Bank.

Corporate governance manual: The SECP will update the Corporate Governance Manual in light revised Code of Corporate Governance, and other corporate governance directives.

Collaboration with the IFC on corporate governance: The SECP plans to extend its cooperation with the IFC in terms of organizing the corporate governance training and seminars in collaboration with the IFC.



Media and Corporate Communications Department

The Securities and Exchange Commission of Pakistan maintains an open, participatory management style and culture for which open communication is a prerequisite to produce quality outputs for all stakeholders. This requires clear and unambiguous communications from the organization. The media professionals are an important stakeholder as they are the main provider of information to the majority of stakeholders, including the public. In order to achieve all these objectives, the Media and Corporate Communications Departments has been created at the SECP.

The department serves as the public face of the SECP, and its functions include:

- Administering internal and external communication programs and coordinating with the media
- Ensuring effective, proactive two-way communication with key internal and external stakeholders
- Arranging, managing, reviewing and analyzing the press coverage of the SECP and SECP-related issues, activities and initiatives, the securities industry, and the financial markets

Activities/tasks

Annual report: The department compiles, edits and publishes the SECP's annual report.

Newsletter: The department publishes a quarterly newsletter that highlights the SECP's achievements, initiatives and activities. It also carries articles on matters within the SECP's mandate.

SECP's projection: The department maintains a close contact with all tiers of print and electronic media. Its proactive approach has resulted in positive projection of the SECP. It handles media queries, and arranges the SECP officers' interviews and press conferences.

News summary: In order to keep the SECP officials updated on news and editorials appearing in the newspapers about developments in capital markets, corporate sector and other affiliated sectors, the department prepares a press summary on a daily basis. It is disseminated among all the SECP employees.

News management system: The department gets the SECP's press releases and others useful stuff uploaded on the Intranet through the News Management System.

Economic Survey of Pakistan and yearbook of ministry of finance: The department maintains communication with the Finance Division for a timely submission of requisite material for its yearbook and Economic Survey of Pakistan. The department coordinates with all divisions/departments of the SECP for compilation of contents/data for these publications.

Journalists training workshops: The department regularly organizes training workshops for journalists in Islamabad, Karachi and Lahore. The main purpose is to update journalists on the key areas of economic reporting and acquaint them with the latest developments and achievements of the SECP.

Processing of SECP ads: All the SECP's advertisements that appear in newspapers are processed by the department.

Transformation and Knowledge Management Department

The department was formed in April 2012 with the following objectives:

- Develop procedures, systems, and operations to enhanced organizational effectiveness
- Ensure the implementation of SOPs and systems through automation of procedures, and ensure their effectiveness and efficiency through simplification of processes with a view to reducing turnaround time
- Develop a central knowledge bank to preserve institutional memory and decrease time required in retrieving and accessing historical and current data and information required by various stakeholders

Keeping in view the objectives set for it, the department worked on many projects and initiatives during the financial year 2012-13. Some of the projects and achievements are:



ERP

The department oversaw and managed the implementation of the ERP system in collaboration and with the support of the outsourced implementation team, the Finance, Administration, Human Resource and Training, and the Information Systems and Technology Departments. The implementation of the ERP system has resulted in the standardization of the business processes of the support functions based on best practices. The automation, simplification, and reduction in turnaround time have been achieved for the business processes of the modules implemented in the ERP system.

Thanks to the successful management of the project by it, the ERP system has been implemented on time and within budget. The ERP is now in operation and following functions have been implemented:

Finance

- General ledger
- Payables
- Fixed assets
- Cash management

Admin

- Procurement
- Inventory

HR&T

- Core HR
- Self-service
- Payroll
- Learning management
- Performance management
- Succession planning
- Recruitment

Web discussion forum

On a regular basis, the SECP needs input on draft laws, concept papers, and new ideas from the outside stakeholders. This consultation process used to be carried out conventionally by sending formal letters to key stakeholders to seek their feedback. This did not result in any active discussion among the stakeholders, and only a limited number of comments and suggestions were received. Also, it was cumbersome to keep track of the comments and feedback from outside stakeholders and the preparation of a consolidated view of the consultation process on draft laws and regulations used to consume weeks or even months to reach the conclusion.

This tedious task greatly affected the SECP's overall performance. The department took up the task of addressing the issue through the introduction of the web discussion forum and definition of standard operating procedures (SOPs) for the use of the web discussion forum. After the definitions of the requirements, design, policies, SOPs, and obtaining the approval of the Commission for the implementation of the web discussion forum by it, the implementation was carried out by IS&TD.

The web forum is currently in operation and the key benefits have been achieved:

- Interaction with all stakeholders
- Ideas generation
- Discussion, debate, and feedback
- Compilation and consolidation of feedback
- Visibility of draft laws, concepts and ideas being considered by the SECP

Business process management

The department has carried out a comprehensive business process management exercise in collaboration with all relevant divisions and departments of the SECP and documented almost 200 AS-IS business



processes of the Company Law, Insurance, Specialized Companies, and Securities Market Divisions. In addition more than 130 AS-IS business processes of the support functions have also been documented.

After the successful documentation of the AS-IS business processes using tools of the IBM BPM suite, these processes are being reviewed and analyzed by the department in collaboration with the process owners. The review is being carried out with a view to optimize and re-engineer these processes to reduce turnaround time, develop standard operating procedures, and automate processes.

Some business processes for which these steps have already been completed include:

Financial returns by brokerage firms

Earlier in order to check the financial health of brokerage firms the SMD would get the financial data through various disparate channels. It was difficult to collate and analyze this data. Keeping in view the fact that the financial strength of the brokerage firms is a key ingredient in the protection of the investors and the strength of the capital market, it was felt that there was a need to streamline this process. In collaboration with the SMD, the department worked on designing a process which would facilitate the brokerage firms in submitting their financial data in a convenient manner without undue burden and also allow the SMD to receive and analyze the data with a quick turnaround time.

The department and SMD then worked with IS&TD for automation of the process through the eServices framework. This was followed by training of the brokerage firms in the use of eServices to submit the financial returns.

Annual disclosure of beneficial owner interest and list of members by listed companies

Currently listed companies provide their list of members and beneficial owners and their pattern of shareholding through the annual return of Form A. This leaves the beneficial owner (BO) Wing of the SMD dependent on various factors in getting the information required for their review and analysis. After review the AS-IS process the department, in collaboration with BO, re-engineered the process. The department and BO, then worked with the IS&TD for automation of the re-engineered process through the eServices framework. The process has now been successfully implemented and will be available to the listed companies in the upcoming year.

Debt securities trustees' framework

The SECP introduced the debt securities trustee's regulations in 2012. Since this was a new framework, the department worked in close collaboration with the SMD on the business process for gathering post-subscription information and the business process for periodical update in the local debt security. The department and SMD then worked with the IS&TD to automate these business processes through the eServices framework using the IBM BPM suite. The processes have now been successfully implemented and will be available in the upcoming year.

Issuance and renewal of insurance surveyor companies

The business processes for issuance and renewal of licenses for insurance surveyor companies was automated earlier through the eServices framework. However, the system could not become operational. The department ID, and IS&TD collaborated to streamline these processes so that the system could be made operational. A training program was designed for the Surveyor companies and training on the usage of the streamlined processes was provided to the surveyor companies by ID. The business processes are now fully automated and the system is being used by all insurance surveyor companies.

Process improvement for external stakeholders

Most of the SECP's business processes involve external stakeholders. These stakeholders are involved in these business processes in order to comply with the various laws, rules, regulations, and policies within the SECP's purview. They can interact with the SECP through the service desk by either calling the helpline at 051-111-117-327 or going to the service desk from the SECP's website.

The department has been using the service desk as a gateway to get feedback from the external stakeholders about the problems they face when interacting with the SECP. The department has used this feedback to improve the business processes of the SECP. Some of the processes that have been improved to facilitate the external stakeholders after obtaining feedback include:



- Name reservation process
- Company incorporation process
- Obtaining a challan from the SECP's website for payment related submission of any information/ data/form
- Obtaining a digital certificate for usage in submitting information, online through the eServices framework

One-stop shop

The World Bank, the Economic Reform Unit of the Finance Ministry, SECP, FBR, and EOBI are working together to make a one stop shop for startup of businesses. The department has played a key role in coming up with the solution for a virtual one stop shop. The department has put forward the business processes and recommended the technical solution which has been adopted by the working group, and included in the World Bank report.

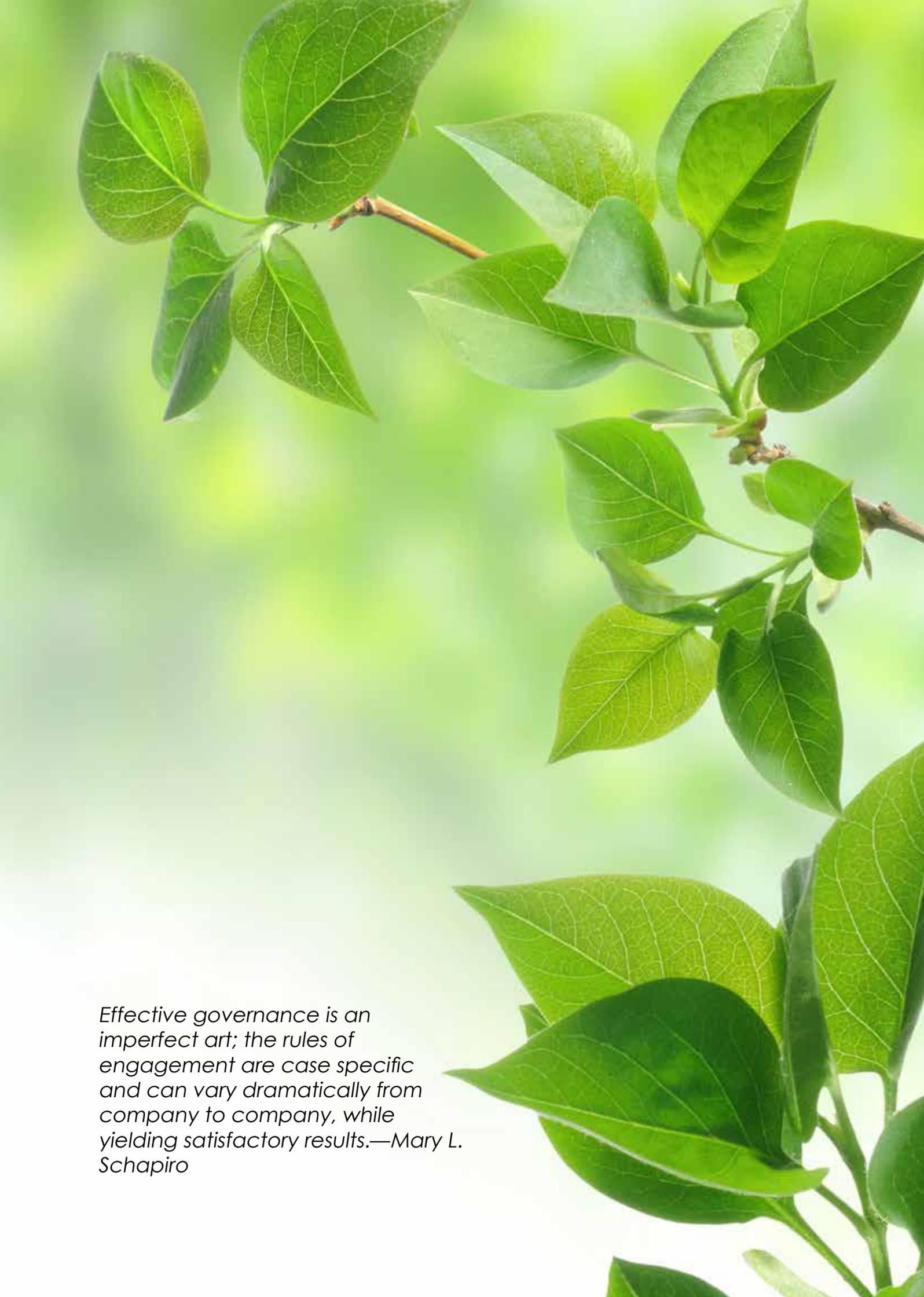
Registrars' conference

The department was invited to the annual registrars' conference held in Islamabad. Various committees were formed during the conference. It was part of four of these committees, and contributed to the following reports:

- Automation Committee Report – The committee made recommendations on what steps need to be taken in the eServices framework to further improve business processes of the C&CD, to facilitate the corporate sector in compliance with the company law and the officers of the CROs in reducing the turnaround time of all processes and improved decision making
- Data Rectification Committee Report – The committee made recommendations on what steps need to be taken to ensure correctness of data being maintained by the CROs
- Structured Mechanism Committee Report – The committee made recommendations on what changes need to be made to the organization structure at the CROs to improve the overall working
- Guidance with Literature Committee Report – The committee made recommendations on what steps need to be taken to guide the external stakeholders to facilitate them in complying with the various rules and regulations

Development of SOPs

- Developed the SOPs for project/task management and also trained all SECP officers on project/ task management
- Developed the SOPs and automated the process for secure access to enforcement manuals
- Developed the SOPs for the web discussion forum
- Developed the SOPs for event management
- Developed the SOPs for business process documentation



Effective governance is an imperfect art; the rules of engagement are case specific and can vary dramatically from company to company, while yielding satisfactory results.—Mary L. Schapiro



Commission's
Secretariat



Commission's Secretariat

Bushra Aslam (Secretary to the SECP/HOD) with Ejaz Alam Khan, Altaf Hussain and Syed Muhammad Safdar.

Internal Audit and Compliance Department

Haider Waheed Khan (Director/HOD) with Zahida Rafiq, Rizwan-Ul-Haq, Muhammad Nadeem and Samar Fatima.



Appellate Bench Registry

Muhammad Sohaib (Joint Registrar/HOD) with Asmara Warraich, Adil Jamal and Chaudhary Abdul Rasheed Nasir.



Commission's Secretariat

The Commission's Secretariat performs the duties and responsibilities of secretarial nature as entrusted to it under the 2000 Securities and Exchange Commission of Pakistan (Conduct of Business) Regulations, and the 2000 Securities and Exchange Policy Board (Conduct of Business) Regulations, under the supervision of secretary to the Commission.

The Commission's Secretariat is mandated to

- Issue notice, agenda and working papers of the meetings of the Securities and Exchange Policy Board and of the Commission.
- Accept service of all notices and other documents on behalf of the policy board and of the Commission.
- Communicate to the relevant quarters, all decisions made in the meetings of the Commission and the board
- Represent the Commission on any forum
- Sign a decision made by the Commission as a result of a hearing, if so authorized by the Commission.
- Certify a decision made by the Commission, or a document used in connection with a hearing by the Commission.
- Monitor implementation of the previous decision of the board and of the Commission.
- Issue SROs/notifications on behalf of the Commission and maintain their record.
- Act as custodian of record of declaration of assets/IT returns/statements submitted by the chairman, Commissioners and officers of the Commission as required under the provisions of the HR Handbook.
- Issue numbers in chronological order of circulars of the Commission and maintain their record.
- Exercise such other powers and perform all other duties as assigned by the chairman from time to time.

The Commission's Secretariat also provides secretarial services to the newly established Shariah Advisory Board, which advises the SECP on all matters pertaining to the development and promotion of Islamic financial market.

Key achievements

During the period under review, the Commission's Secretariat strived for its automation and took many initiatives. It ensured safe custody of proceedings of the Commission as well as the policy board by indexing and hard-binding of all previous minutes. The metadata templates for retrieval of any documents were prepared and after development of a module, scanning of all old record of Commission's Secretariat is in its final stage. Besides, it finalized standard operating procedures for portal of Commission's Secretariat in order to automate all of its functions. In this regard, business processes have been analyzed and the portal is in its implementation stage.

For the purpose of revalidation of the Commission's previous decisions, the Commission's Secretariat undertook a thorough study of all proceedings and compiled decisions of the Commission from January 2006 to August 2012. Accordingly, the 2013 Securities and Exchange Commission of Pakistan (Amendment) Act was promulgated through which practical difficulties faced by the Commission were removed.

Conduct of business of the Commission

During the period under review, Commission's Secretariat convened 25 emergency and regular meetings of the Commission wherein 257 working papers of departments/divisions were considered and decided appropriately. Besides, the Commission also constituted committees consisting of the senior management of different departments/divisions for thorough review of the draft rules and regulations prior to their finalization. The Commission also passed 10 resolutions by circulation and decided emergent



matters of departments/divisions. During the period, the Commission's Secretariat, on behalf of the Commission, issued 48 statutory regulatory orders/notifications and facilitated issuance of 30 circulars of the Commission.

Appellate Bench Registry

The Appellate Bench of the SECP is statutorily mandated to hear appeals filed against the orders passed either by a commissioner or any other officer authorized by the SECP. It comprises of two commissioners. The Appellate Bench Registry is headed by the registrar, Appellate Bench, who works under general superintendence of the Appellate Bench. Administratively, the registrar reports to commissioner, Company Law Division. Section 33 of the 1997 Securities and Exchange Commission of Pakistan Act, and the 2003 SECP (Appellate Bench Procedure) Rules, provide the legal basis for the functioning and administration of the Appellate Bench and the Appellate Bench Registry.

During fiscal year 2012-2013, the Appellate Bench disposed of 114 appeals. In 2011-2012, 69 appeals were disposed of. The disposal of appeals in 2012-2013 was the highest recorded since the inception of the Appellate Bench. The disposal of appeals increased considerably due to special initiatives taken during the last year, including holding of hearings on a weekly basis and holding them at the SECP's regional offices. The regulated entities and lawyers based in Lahore and Karachi have expressed their gratitude to members of the Appellate Bench for arranging hearings at the SECP's regional offices as well.

In collaboration with the IT Department, the Appellate Bench Registry has completed the second module of the Appellate Bench Information System (ABIS). The ABIS system provides complete information about the status of pending and disposed of appeals filed before the Appellate Bench.

The Appellate Bench Registry is also working—in collaboration with the IT Department—on an ongoing system of scanning and archiving the orders of the Appellate Bench. All orders passed by the bench to date have been scanned and archived. This database will assist in a streamlined access to Appellate Bench orders and will strengthen the working of the Appellate Bench.

Future plans

The Appellate Bench Registry plans to continue holding Appellate Bench hearings on a weekly basis. In addition to the head office, the Appellate Bench shall hold its sittings at the SECP's regional offices. The issue of pending appeals has largely been addressed and efforts will be made in 2013-2014 to completely do away with pending appeals.

The Appellate Bench Registry is also working on a plan to launch e-Appellate Bench, which will be the first electronic appellate forum in Pakistan. The first stage of this bench has been completed and the amendments to Appellate Bench Rules have been proposed. It shall be launched in 2014, which shall include online submission and processing of appeals. This initiative shall facilitate and expedite the process of adjudication of appeals.



Internal Audit and Compliance Department

The objectives of the Internal Audit and Compliance Department (IA&CD) include the following:

- To provide independent appraisal of all the activities of the SECP aiming to add value, improve operational efficiency, risk management and internal control systems
- To examine and evaluate whether the SECP's framework of risk management, control, and governance processes, is adequate and functioning properly; and
- To advise and recommend senior management for improvements in internal control and risk-management systems.

Major activities during 2012-13

During the year under review, the functionality of the Internal Audit Department was redefined and its scope was widened by the Commission resulting from the development and implementation of following five manuals of the SECP:

1. Offsite Surveillance and Monitoring Manual
2. Inspection Manual
3. Enquiry and Investigation Manual
4. Adjudication Manual
5. Litigation Manual

In order to ensure the effective implementation of these manuals, the Commission in its 19th meeting of 2012 held on September 24, 2012, renamed the Internal Audit Department as the Internal Audit and Compliance Department by assigning it additional responsibility of ensuring compliance of the said manuals, conducting regular audits of the relevant departments using these manuals and ensuring compliance with any other manuals, SOPs and processes that the SECP may develop and approve in the future.

During the period under review, the department performed 8 audits under the approved annual audit plan for the year 2012-13 and carried out two major assignments under the special instructions of the Commission. The department also presented two discussion papers for further consideration of the competent authorities. In addition, it was also nominated as the lead coordinator for carrying out the external audit of the IS&T Department. The detailed terms of reference were prepared in this connection.

A summarized list of all these activities is given below:

Audits as per annual audit plan for the year 2012-13

1. Asset disposal system of the SECP
2. Travel and Transport Wing of the Organizational Effectiveness Division
3. Disaster Recovery Center review (project inception to operational phase)
4. Penalties imposed by the SECP
5. Operational audit of the Karachi CRO
6. Audit of intangible assets
7. Companies Regularization Scheme and Companies Easy Exit Scheme Audit; and
8. Audit of CLD fee refund cases

Special assignments

1. The audit of all CAPEX related procurements as processed during the period from January 1, 2011 to December 21, 2012
2. The audit of all operational expenditure incurred during the period from January 1, 2011, to December 21, 2012



Other tasks

1. Preparation of terms of reference for IT audits
2. Discussion paper on conflict of interest management at the SECP
3. Discussion paper on restructuring of IA&CD in light of the extended scope of work and adoption of new amended Internal Audit Charter by the SECP

The department completed all the assigned tasks within the given deadlines/timeframes. The finalized internal audit reports with recommendations and actions required to be taken by the audited divisions / departments on the deficient areas were presented before the Audit Committee and the Commission for their consideration and approval. After obtaining approval, the suggested actions were communicated to the respective audited divisions/departments for taking corrective measures and ensuring complete compliance within the given deadlines.

During the year, four meetings of the SECP's Audit Committee were held and the department provided secretarial support to the committee in scheduling and conducting the said meetings. The Audit Committee in its second meeting held on April 10, 2013, approved the Audit Committee Charter which defines the objective, scope, authority and responsibilities of the committee; the charter was subsequently approved by the SECP chairman. The minutes of all the meetings were prepared and decisions of the committee were conveyed to the respective divisions/departments for ensuring compliance.

The department during the financial year 2012- 13 pre-audited 95 vouchers of final settlements covering pensions, provident fund, gratuity and leave encashment as were submitted to it by the Finance Department. The pre-audit of bonus distribution was also conducted. The observations, as emanating from the scrutiny, were communicated to the respective departments for taking appropriate corrective actions. Further, certain investigative and consultative engagements were also carried out as were referred by the competent authorities.

The department also made representations on the SECP's committees on 'data refining' and 'quick turnaround time'. Various meetings of the said committees were held during the year and necessary recommendations were given on process audits, data refining steps and the measures to speed up turnaround time.

Future plans

The department plans to carry out a comprehensive exercise to evaluate various risks associated with operations/functions of each division, department and wing of the SECP, particularly in terms of adequacy and effectiveness of internal controls and will prepare its annual audit plan for the year 2013-14 after application of various techniques of risk-based internal auditing.

A comprehensive annual audit plan defining scope and objectives of each selected audit area will then be presented before the Audit Committee for seeking its approval. The updating of the Internal Audit Manual and restructuring of the department in order to strengthen its operational capacity would also be focal points of consideration for the department and the Audit Committee in the upcoming year.



Litigation, Legislation and General Counsel Division



Legislation, Litigation and General Counsel Division

Muzafar Ahmed Mirza (Director/HOD) with Ibrar Saeed, Naveed Ihsan, Muhammad Maroof Bhatti, Qaiser Imam, Muhammad Umar and Aziz Gondal.

Litigation, Legislation and General Counsel Division

The Litigation, Legislation and General Counsel Division consists of:

- Litigation Department
- Legislation and General Counsel Department

Litigation Department

The Litigation Department is responsible for the effective management of litigation matters of the SECP. Its mandate includes handling cases filed by and/or against the SECP in various judicial and quasi-judicial forums in civil, criminal and corporate matters. The department strives to protect the interests of the SECP in the courts of law. The officers of the department are responsible for attending the respective courts, rendering opinions in matters under litigation, maintaining and updating litigation records and database, appointing external lawyers and assisting the appointed external lawyers. The officers coordinate with external lawyers as well as operational departments in the preparation and finalization of pleadings etc.

The department protects the SECP's interests and provides assistance to the courts in matters relating to the laws administered by the organization. During the last fiscal year, the department dealt with cases pertaining to

- 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 the Companies Ordinance 1984 and other laws administered by the SECP
- Cases relating to investor complaints against brokers, investment banks etc.
- Service matters
- Suits for damages against the SECP
- Human Rights Commission cases before Supreme Court of Pakistan
- Constitutional petitions



Legislation and General Counsel Department

The Legislation and General Counsel has been mandated with the primary responsibility of legislative and advisory role of the SECP. The department endeavors to ensure the provision of effective legal services to the SECP in the performance of its regulatory objectives and functions.

Legislative role

The department drafts new laws and reviews existing laws administered by the organization. Additionally, the department reviews and draft laws to be enacted by the federal government and other statutory bodies. It vigilantly examines the laws administered by SECP and proposes amendments, if needed. The department also provides legal advice on bilateral investment treaties between Pakistan and other countries.

During the year, the department remained actively involved in the ongoing exercise to revamp the existing primary as well as secondary administered legislation of the SECP. During the period under review, the department drafted and reviewed:

Primary legislation

- Securities and Exchange Commission of Pakistan (Amendment) Act, 2013
- Stock Exchanges (Corporatization, Demutualization and Integration) Act, 2012
- Draft Futures Trading Bill, 2012
- Draft Securities Bill, 2012
- Draft Securities and Exchange Commission of Pakistan (Regulation and Enforcement) Bill, 2011
- Draft Corporate Rehabilitation Bill, 2012

Secondary legislation

- Draft Bond Pricing Agency Regulations, 2013
- Draft Research Analyst Regulations, 2013
- Draft Brokers and Agent (Registration and Inspection) Rules, 2013
- Draft Commercial Paper Regulations, 2013
- Draft underwriters Rules, 2013
- Draft Transfer Agent (Registration and Regulations) Rules, 2013
- Draft Micro Insurance Rules, 2013
- Draft Employees Provident (fund) Rules, 2013
- Sound and Prudent Management Amendments Regulations, 2012
- Draft Sukuk Regulations 2013
- The Advisors, Consultants and Lead Managers to the Public Issue of Securities Regulations, 2013
- Draft Regulations on Business Conduct for Trading and Investment Practices for Brokers, 2012
- Draft Not-for-profit (Corporate Governance and Licensing) Regulation, 2013
- Draft Specialized Valuer's Regime in Pakistan

Proposed amendments to the existing laws

- Amendments to the Commodity Exchange and Future Contract Rules, 2005
- Amendments to Credit Rating Companies Rules, 1995
- Amendments to CRO Regulations, 2013
- Amendment to First Schedule to the Companies Ordinance, 1984
- Amendments to NBFC Regulations, 2008
- Draft Amendments to Second Schedule to the Companies Ordinance, 1984.
- Draft Amendments to Code of Conduct for Credit Rating Companies
- Amendments to HR Services Manual
- Amendments to Securities (Leveraged Market and Pledging) Rules, 2011
- Amendments to Takeover Regulations, 2008



Legislative assignments referred to the SECP by federal government

- Draft Deposit Protection Fund Act
- Draft Credit Bureau Act
- Draft Regulations of Foreign Contribution Bill
- Reviewed and commented on NDMA Risk Assessments Fund for Ministry of Commerce
- Reviewed and commented on 10 bilateral investment treaties between Pakistan and other countries
- Draft Amendments to Financial Institution (Recovery of Finances) Ordinance, 2001

Advisory role

The department also provides advisory services to the SECP and its departments. It is solely responsible for providing legal advisory services on matters referred to it by the respective divisions and departments.

It advises the operational divisions and departments on legal issues, including the application and scope of provisions of laws administered by the SECP.

Some of the major advisory functions of the department are:

- Providing legal advice with respect to 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 the administered legislation of the SECP
- Applicability of takeovers law and sanctions available to the SECP for contraventions
- Guidance and resolution in instances of conflict and interpretation of laws
- Issuance of shares, indirect acquisition, sale and repurchase of shares
- Delegation of powers
- Suitability of sanctions that may be imposed by the SECP, including imposition of fines, issuance of directives and cancellation of licenses etc.
- 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 SECP's power is invoked during the pendency of a case in a court of competent jurisdiction
- Clarification regarding the statutory requirements imposed under the Companies Ordinance, 1984
- Advising on the future course of action during inquiries and proceedings in light of technical hurdles
- Assisting operational departments during investigations and inquiries
- Reviewing and drafting show cause notices, orders, circulars, notifications etc. for the respective departments of the Commission.
- Actively participating in the SECP's Merger Committee as a permanent member of the committee
- Reviewing and drafting agreements for the SECP's Admin and IS&T departments
- Reviewing and drafting memorandums of understanding
- Reviewing and providing comments concerning bilateral investment treaties

Future plans

The Division plans to undertake the following activities over the coming year:

- Implementation of the litigation manual
- Introduction of necessary changes in prevalent investigating procedures and compilation of new reporting format for the SECP
- Introduce and revamp court case database, which would be more interactive and user friendly
- Updating and archiving of legal opinion of data base/repository of legal opinions, for ease of reference and to avoid duplicity in the work
- Proposing necessary legislative amendments to laws administered by the SECP
- Standard operating procedures for prosecutions filed by the SECP
- Code of cooperation with district administration for assistance in investigation/inquiry authorized by the SECP
- Introduction of new standard operating procedures for legislative assignments
- Standing operating procedures for the division
- Draft Proposal for Exercising Powers under section 31 of the 1997 SECP Act



Market Development and Investor Education Department



Market Development and Investor Education Department

Akif Saeed (ED/HOD) with Naseeruddin Humayun, Osman Syed and Kamal Ali.

Market Development and Investor Education Department

In May 2013, the Commission merged the Investor Education Department and Complaints and Service Center Department to form the Market Development and Investor Education Department (MD&IED). Apart from developing and implementing the SECP's investor education program, the new department has been mandated to make recommendations for the overall development of the capital market and corporate sector of the country. Keeping in view the best international best practices, the department will assist in structuring a detailed roadmap and advise reforms in areas of governance, transparency, regulation, product/market development, and investor protection.

Over the past the Islamic finance industry has evolved to become an increasingly important component of the international financial system. In order to ensure the organized development of Islamic finance market in Pakistan, the department will frame and implement a comprehensive plan for the introduction of Shariah-compliant products, and reforms to improve the existing regulatory, structural and operational framework. Measures will be taken to put in place strategies for bringing Islamic capital market to the mainstream for more synchronized development of the Pakistani financial market.

Key achievements

Investor Education

While recognizing the importance of financial education, the SECP in collaboration with key capital market stakeholders launched a countrywide program for investor education in July 2012. It targeted various categories of potential investors such as university students, general investors and retired individuals.

The program was launched under the aegis of the Institute of Capital Market (ICM) while at the backend



apart from the SECP it had the support from all the four exchanges, the CDC, NCCPL and MUFAP. Under the program, the investor guides were developed, printed and distributed in about 30 seminars that were organized nationwide.

The main thrust of the program was to conduct seminars with geographic coverage across the country backed by a media campaign to attract the target investor segments to attend these seminars. In the wake of the launch of the program, certain drawbacks were noticed in terms of coordination and divergent end objectives among the sponsoring stakeholders, absence of a follow-up procedure with potential investors and consumers once they had attended a seminar and lastly cost sharing and coverage issues. Consequently, it was decided by the SECP to put the program on hold and devise a new program to be housed within the SECP with focus on investor education, awareness and investor protection.

A revised investor education program has been developed and is awaiting the Commission's approval. Under the program overall target market has been divided into two broad categories, i.e. the youth under the age of 25 which makes up almost 56% of Pakistan's total population. Targeting the youth will ensure that this segment is aware of non-bank financial markets before they begin their professional or business careers. The second broad category is the segment that has surplus resources to save and invest consisting of professionals such as doctors, lawyers, academics, accountants, the salaried class and businessmen.

The plan envisions two approaches in terms of delivery—generally to entire Pakistan through virtual means, i.e. through web portal, mobile messaging, social media marketing, electronic and print media and targeted to specific segments through physical interaction by organizing events such as seminars, workshops at educational institutions, organizations or rented premises, investor and insurance day, and financial expos in selected cities.

The implementation of the plan has been divided into three phases, i.e. preparatory phase in which all the groundwork will be done to prepare web portal along with linkages for SMS service and social media, and preparation of material to be printed or uploaded on the web portal. The second phase will start with the formal launch of web portal followed by third phase of assessment of the plan to assess the need for fine-tuning.

Alternative dispute resolution

With regard to aggrieved investors looking for speedy justice, the SECP is exploring mediation as an alternative dispute resolution (ADR) mechanism which aims at resolving disputes informally. For this purpose, the SECP has signed a memorandum of understanding with the Karachi Centre for Dispute Resolution (KCDR). This will not only have a positive impact on investor confidence, but will also lighten the load of litigation on courts. In collaboration with the KCDR, the SECP organized an interactive workshop and awareness session for its senior executives on mediation on February 13, 2012.

In order to raise public awareness about mediation, a write-up on the ADR mechanism will be included in the material being developed for investor education program. In addition, the Pakistan Institute of Corporate Governance (PICG), Institute of Capital Market and Pakistan Insurance Institute have also been approached to develop modules on mediation.

In collaboration with the KCDR, the PICG has started organizing awareness session on mediation vis-à-vis corporate governance disputes. This session is based on resolving corporate governance disputes toolkit developed by the Global Corporate Governance Forum—a multi-donor trust funded facility co-founded by the World Bank and the Organization for Economic Cooperation and Development. It will eventually take the form of a training program for directors, mediators, lawyers and other stakeholders in resolving corporate governance disputes through mediation and other ADR techniques.

Institute of Capital Market



The SECP is also working on human resource capacity building and setting standards of ethical conduct for the market participants through certifications. The Market Development and Investor Education Department is actively engaged with the ICM to develop certification programs for those performing various functions in market intermediaries, with the eventual aim of mandating such programs for all persons providing services in the capital markets.

Currently, the ICM is offering certification program for stock brokers, mutual fund distributors and analysts. During the year 172 individuals obtained certification from the ICM on stock broker certificate (4) and mutual funds distributor certification (168).

The work is underway for developing new certification programs, two overarching programs are being developed for the capital markets: Pakistan Markets and Regulations (PMR) and Fundamentals of Capital Markets (FCM) Programs. These would cover regulatory and operational aspects of the capital markets while the following specific programs would provide certification for the respective area of operations:

- Analyst Certification Program
- Compliance Officer Certification Program
- Financial Derivate Program
- Islamic Finance Certification Program

During the year the ICM signed an MOU with the CFA Institute, Hong Kong, and the CFA Society Pakistan for collaboration including furthering the CFA flagship ethics program.

Future plans

At present, Islamic products are being offered by various non-bank financial intermediaries like Islamic mutual fund, Islamic voluntary pension fund, Islamic insurance (takaful), and modaraba. Last year the SECP approved formation of a Sharia Advisory Board at the commission's level; during the coming year roadmap would be developed and implemented for the growth of Islamic finance market. Additionally, reforms will be instituted for the overall development of the capital market in line with international best practices. In order to keep pace with the developments taking place in capital markets around the globe, focus will be on adopting measures for enhanced investor protection, good governance, transparency, regulation, product/market development etc.

Once the investor education program is approved by the Commission, its implementation will start with the development of web portal and other infrastructure for presence on social media. The work on printed material and training of resource persons would also be done leading to starting of conducting seminars. The scope of the Complaints and Service Center will be expanded to include responding to queries pertaining to investor education. Similarly, the above-mentioned certifications will be rolled out and implemented by the ICM.



Information Systems and Technology Department



Information Systems and Technology Department

Muhammad Aqil Ismail (Director/HOD) with Sumera Noreen, Muhammad Azim, Imran Khan, Muhammad Raza Ali Khan, Imran Saeed, Haroon Rashid, Muhammad Suhail and Stephanie Vera Wong.

Information Systems and Technology Department

The objective of the department is to create a fully automated and paperless work environment with the purpose of information sharing, data integrity, efficiency and security.

Key achievements

The key achievements of the department for the year 2012-2013 are

1. eServices program: creating a paperless culture

eServices program along with the Business Process Management (BPM) and Enterprise Resource Program (ERP) are all part of an effort to create an environment where the SECP can work in a paperless culture. eServices, i.e. "electronic services" facilitates the corporate and regulated sectors with a fast, secure and efficient electronic medium of interaction with the SECP. It is an ongoing program that was launched in September 2008. Using this system registered companies can submit the statutory returns and initiate various processes with digital signature. For the last many years, a number of new processes and their electronic modules have been included into the eServices system such as company incorporation, change in company objects, change of company status, change of company address, filing of statutory returns, renewal of registration of agent, return filing by mutual funds, investment banks, leasing companies, insurance companies, etc. With time eServices is becoming preferred mode for company registration and periodic returns filing as can be seen from the table below:

Since launch of eServices	Financial year 2012-13	
Companies registered online	7,991	2,459
Processes submitted online	95,283	29,985

During the period under review, the following modules or their extensions were added to the eServices system:



a. Brokerage house return submission system

Financially strong and well-governed brokerage houses give strength to the capital market and investor protection. In order to closely monitor financial health of brokerage houses and their level of conformances with the regulatory requirements as part of the eServices program, the department along with the Securities Market Division has developed the Brokerage House Return Submission system (BHRSS). This will facilitate brokerage houses to submit returns with convenience and through a secured medium. At the same time it will enhance monitoring capacity of the SECP.

b. Electronic disclosure of beneficial-owner and members' interest system (eDBIMS)

Pursuant to the directive issued under section 246 of the 1984 Companies Ordinance, listed companies are required to file a hard copy of the annual return on Form-A, along with pattern of shareholding and soft copy of the list of members with the SECP, within 45 days of holding of annual general meeting.

In order to improve the monitoring capacity of the Market Supervision and Registration Department of the Securities Market Division, eDBIMS has been developed as part of eServices program. The eDBIMS will not only enable the listed companies to file the aforementioned documents online, but will also enable the SECP to conduct effective monitoring of trading of officers/beneficial owners of listed companies.

c. Corporate debt market reporting system

Debt securities trustee plays an important role in protecting the rights of investors subscribing or purchasing debt securities issued by different companies. During the year, regulatory framework of this activity was put in place through the 2012 Debt Securities Trustee Regulations. Simultaneously, a reporting system has been developed under the eServices program. The Corporate Debt Market Submission System (CDMRS) gathers post-subscription information about debt securities. Afterwards (the debt security trustee) is required to update information on local debt security periodically. In addition, the CDMRS enables the SECP officials to generate standard and customized reporting of the debt market.

d. Insurance companies regulatory system (ICRS)

We have been adding processes related to the insurance sector to the eServices program for the last few years. The insurance companies are required to submit hard copies of financial statements and other regulatory returns on an annual and quarterly basis.

During the period under review, the ICRS functionalities were extended to collect forms electronically for takaful and general takaful. The internal module was changed so that they can assign processes to any relevant officer accordingly. The ICRS electronically gathers the insurance industry data and is equipped with statistical and analytical tools, facilitating the SECP officials in screening, analyzing and rating the financial condition of insurance companies.

e. eSInsurance surveyors system

In order to establish and maintain end-to-end connection with insurance companies and to facilitate online requests for issuing and renewal of licenses to the insurance companies and associated surveying officers the eSInsurance surveyors system was successfully deployed last year.

The eSInsurance surveyors system automates the regulatory functions such as licensing of insurance surveyor companies, renewal of insurance surveyor companies, licensing of authorized surveying officer and renewal of authorized surveying officer etc.



2. Enterprise resource planning (ERP) solutions

The purpose of the ERP is to facilitate the flow of information between all business functions inside the boundaries of the SECP and manage the connections with outside stakeholders. In this regards, last year a comprehensive feasibility study, requirement analysis, and business process analysis etc. were completed.

During the year Oracle Financials, general ledger, accounts payable, fixed assets, cash management, purchasing, inventory, human resource management, payroll recruitment, succession planning, performance management and learning management modules were implemented and the system was live on July 1, 2013. Master trainers were trained who delivered training to their respective end-users. With the implementation of the ERP solution, the SECP can forecast accurately, integrate various departments, and eradicate the problem of coordinating changes between many systems. The senior management can have a top-down view of the organization.

3. IBM's business process management solutions

Business Process Management (BPM) gives comprehensive visibility and insight to manage business processes. It provides tools and run time for process design, execution, monitoring and optimization, along with basic system integration support. Using the BPM solution, processes can be collaboratively reviewed by the stakeholder. A paperless environment can be created with the help of this suite. During the period under review, the work on deployment of the IBM's BPM suite was started by analyzing, re-engineering, documenting and establishing standard operating procedures (SOPs) for all the business processes. Most of the processes are documented on AS-IS basis. As a pilot project "Corporate Debt Market Reporting System-internal module" was automated first. In the coming years all major processes will be automated.

4. Launch of complaints and centre service desk facility

A service desk project was initiated last year, which has been running successfully since July 2012. This service desk facility has been established with objective of integration of business processes into the service management infrastructure. In addition to resolving user complaints, this facility can ensure that the queries in particular regarding eServices are addressed to the satisfaction of the customer.

Since the launch of the complaints and centre service desk facility, the relevant officers have attended 5,777 calls. They have addressed queries raised for support, guidance asked for issues and problems. In addition, 128 complaints were filed under 8 categories. Out of these, 85 complaints were resolved whereas the remaining are at different stages of resolution.

5. SECP's website

The website plays an important role in timely dissemination of the SECP's information to all its stakeholders. During the period under review, the department started developing a new website so as to align it with its brand and corporate identity and to make it consumer centric. The department has designed a website-prototype. Based on this prototype, a new website will formally be developed and launched during the coming year.

6. Knowledge management systems

The 'ideas portal' and 'discussion forums' were developed and successfully deployed as knowledge management tools to ensure that all knowledge generated by the SECP officers, departments, and divisions is available for decision-making.

a. Discussion forums: web consultation forum deployment

Discussion forums are being used in the corporate world to interact with outside stakeholders to get feedback on various issues and policies. These forums enable users to interact with each other by comparing notes. The forums help create multiple discussion threads simultaneously



and consolidate the entire discussion of the thread. The information posted on a particular topic remains available for other people to see at any time, which creates a discussion environment.

The SECP needs input on draft laws and concept papers etc. from the outside stakeholders. Conventionally, this consultation process was carried out by sending formal letters to key stakeholders and placing the drafts of laws on the SECP website to invite their input. The consultation has always been fruitful where key points related to draft laws and new concepts are shared with outside stakeholders, but this did not involve any active discussion among the stakeholders, and only a limited number of comments and suggestions, are received by the SECP. Thus the need of having a web consultation forum was felt. In order to meet this emerging need a web forum was developed that not only helps in sharing information but also to achieve consensus through interactive discussions between multiple stakeholders. So far, the following laws, regulations and concept papers have been published for public opinion:

- Draft Bond Pricing Agency Regulation, 2013
- Centralized Know Your Client Organization Concept Paper
- Commercial Paper Regulations
- Bancassurance Regulatory Framework
- NBF Sector Reform Committee Report
- Draft Associations Not For Profit (Licensing and Corporate Governance) Regulations , 2013
- Balloters & Transfer Agent Rules, 2013
- Underwriter Rules, 2013
- Principles of Corporate Governance for Non-Listed Companies
- Draft Companies (Distribution of Specie Dividend) Regulation, 2013

b. Ideas portal

The ideas portal serves as the main interaction for the SECP's employees to generate and discuss new ideas. Any new ideas generated by an employee are taken up by an idea sponsor who then guides it to maturation. This system will help the SECP in making better decisions, policies and procedures.

7. Storage upgrade

In order to cope with growing needs of storage capacity, the department had planned to replace the old storage with a newer and better hardware. This storage technology offers better performing hardware, greater bandwidth speed and more storage capacity at the same cost. With higher I/O operations per second, this storage solution has significantly improved database access and application performance. The migration of the data was completed successfully at both head office and the Disaster Recovery Center (DRC) to the new storage system, and the old storage has been powered down. Furthermore, the replacement of replication devices at head office and DRC has removed the capacity limitation for data transfer which was a bottleneck in the previous equipment, with no additional cost impact on the project.

8. Enhancement of virtualization servers in DRC

As a step to further improve physical to virtual consolidation ratio for the DRC new high-end servers were installed at the DRC. These servers have enhanced the computing power significantly and at the same time helped reducing the number of physical servers absolutely essential to run services from the DRC in case of a major disaster. This will ensure higher uptime of the DRC, reduced power requirements to run the data center and reduced carbon footprint on the environment. These dormant servers have the capacity to bear the load efficiently for smooth business operations of SECP and better services for users.

9. Unified communications project – Phase 1

Keeping in view the new technological advances in the fields of voice, video and data, the department has been focused to provide the SECP users a single collaboration suite that covers the entire feature set of quality voice, video and presence providing robust communication infrastructure.



In order to meet these needs, Unified Communication (UC) project has been implemented to integrate real-time communication services like instant messaging, presence information, telephony, video conferencing, data sharing, call control, speech recognition etc.

The UC project has been planned in two phases. In the first phase infrastructure team at IS&T department has deployed and configured several server and client side components. Single sign-on configurations were done, so that the user can use UC client with same username and password which is used for computer login and accessing other services. A comprehensive training plan was made and executed at the head office and all CROs. These training sessions were conducted by the deployment team of Unified Communication Project. Users can now call using UC client, do chats, group chats, voice and video calls, conference calls and are better able to converge to business conclusions due to effective communication and collaboration. The IP end points for all users in the SECP will be deployed in phase 2.

The project has provided a single collaboration tool across the board to meet all communication needs, and has helped to revolutionize the communication facilities for all SECP users. It has improved productivity and collaboration manifold by integrating all communication services under one umbrella.

10. Active Directory restructuring – Phase 1

Active Directory (AD) is the single source of information for all the SECP employees. For users to be able to better communicate with each other IS&T Department has decided to restructure the AD. For this purpose, user profile pictures were uploaded in the directory system, and these pictures were actively published in Microsoft Outlook to provide with a new feel of the application. The phone numbers and telephone extensions of users have also been updated for better integration with the Unified Communication system. The security groups have been created at the department and wing level to segregate network drive access for the users and automate the drive mapping if a user is transferred from one department to another. As part of the same project, naming convention of all the client machines at all the offices of the SECP have been changed. This has enabled the administrators to identify a client machine location, make, model and the owner. This segregation and improved naming convention would help the system administrators to provide better services to the SECP employees, and better availability of resources.

11. Seamless network access for the SECP employees

Seamless network access facility is provided to all the SECP employees at all of its major offices. Using this facility, access privileges are linked to a user's identity. This means that the SECP's workforce can now have consistent, secure access to network resources based on who they are—no matter where they are—what devices they are using or how they are connected. The users with mobile computing devices have access to the corporate network as well as the Internet, irrespective of their physical location in the office. This facility also includes network access for smart phones.

The enhancement of WI-Fi was done as part of providing WI-Fi access at the SECP offices. With more users working on laptops it was realized that Wi-Fi access should meet the growing needs and provide seamless access to the network with enhanced security. In this perspective a plan was made and implemented at all major SECP offices. This provides seamless connectivity to any user travelling within the SECP offices. They get automatic network configuration and no intervention is required for manually setting up network configurations for the user.

Mobile computing devices for management executive level officers: The SECP approved the provision of mobile computing devices up to deputy directors last year. As a continuation of providing mobile computing devices to the SECP's management cadre officers, providing laptops has been extended to management executive level officers. This has enhanced user trust and work productivity, and also been beneficial in reducing total cost of ownership in the long run. This mobility has enabled the users to be able to connect seamlessly to the corporate network from all major SECP offices. They can also work from their home and any other location with the Internet access and can take part in collaborative meetings. This project has been successfully completed. Laptops have been handed over to employees up to management executive level in all the SECP offices with all necessary software and configurations.



12. Upgrade of anti-virus and network security system

A major upgrade was done for Kaspersky anti-virus suite for both server and client side. The Installation was done to make use of the latest features available in the application for intrusion detection, device security was enabled for all users, so that if any USB device is plugged into any system it gets automatically scanned for viruses. The application whitelisting and blacklisting was configured for automatically defining system access rights to various applications, firewall configurations were done to efficiently block malicious traffic, network attack blocker was configured to automatically block any attack originating from the network or malicious code that can be harmful to network computers. This was a step to improve network security, and automate response in case of an anomaly is found on the network. Moreover, anti-spam and anti-virus system for incoming emails has also been upgraded, which has significantly reduced the number of false-positives in email scanning for malicious code, virus etc.

13. Revamp of data center

Cabling in any corporate data center marks the service availability and requires constant effort to improve infrastructure efficiency, reduce downtime as well as reduced troubleshooting time. The department took the initiative to restructure the network and power cabling infrastructure so that every wire in the data center is labeled at both ends and is properly routed and traceable. Thus an effort was made to streamline the cabling in all server and network racks in the data center. This resulted in improved performance of the data center, and improved traceability of the wires, to increase performance of IT infrastructure. This cabling and labeling is made according to international standards to cater for power/network segregation for reduced congestion due to magnetic flux created by power cables.

14. Surveillance and Re-Certification audits for management systems

Third party annual surveillance and re-certification audits for the Information Security Management System (ISMS) and Quality Management System (QMS) respectively were conducted. The auditors expressed their satisfaction with these systems, and have extended their certification for the ISMS. After finding QMS implemented in IS&TD 'in compliance with international standards', the auditors re-certified it.

15. Trainings

In-house and external training sessions were arranged in order to impart IT-related skills to the SECP's employees. Many participants from different departments attended these sessions, and they were taught in-house-developed software such as Insurance Company Return System, Insurance Companies Return Analysis, Insurance Surveyors, Online Reinsurance System, and eServices Support Portal. All SECP employees were taught off-the-shelf CISCO Jabber for Unified Communication. Many training sessions of Outlook Task Manager were arranged at the Karachi CRO and the head office.

Future plans

The future plans are highlighted below:

1. Creating a paperless culture

- To use implemented BPM services based on new and older BPM architectures and to redirect external users, during service transition period, a middle layer will be developed. Old BPM services will be migrated to new technologies.
- To provide seamless Company information Search by internal stakeholders, the contents of the scanning and archiving system will be merged with the eServices system.
- Business rules addressing different laws will be developed in IBM Decision Server (ILOG). The business users will be able to view and update this 'rules repository' without technical help. This rule repository will be used by multiple applications such as eServices, ERP, Portal etc.
- For empowering users taking management decisions and showing the real picture of the work being carried out, real time process instances monitoring will be enabled against business



processes.

- Paperless Business Process Management will be implemented as starting point for every process. After identifying gaps and finally filling them, BPM and ERP solutions will be enhanced in a completely paperless environment.
- For intranet portal SharePoint will be deployed. SharePoint will be integrated with ERP's self-service, Unified Communication, Business Monitoring, Business Process Portal, Business Rules portal.
- To enable users to log their internal complaints 'Complaint Management System' will be integrated with SharePoint. The content management client will also be for direct access to submitted documents from internal users.
- To collect external stakeholders' views against papers/ rule amendments/ laws etc. 'Ideas Portal' will be integrated with 'External Discussion Board'.

2. Upgrade of the Corporate Messaging System (Microsoft Exchange)

Constant upgrades in the corporate messaging system, has made it possible for the IT staff to provide seamless and constant high availability of email infrastructure to all SECP employees. With each major release of Microsoft Exchange, there is a significant decrease in the storage I/O requirements, reduced resource requirements at server side, reduced bugs, increased performance, increased features and increased availability. Owing to the genuine need of corporate users and being able to do official correspondence on a highly available, reliable and efficient system, constant investments need to be made to bring the system at par with the latest technology trends in the market. For this an upgrade has been planned for Exchange 2013, which will include installation of new servers, and migration from the old system to the new one. This migration will be seamless for the users and would cater for the growing needs for performance, high availability and scalability of the collaboration tools being used at the SECP.

3. Unified Communications Project – Phase 2

The quality of communication is vitally important in having high level meetings in the corporate realm. Gestures are equally important in any means of communication. The second phase of the Unified Communications Project has been planned to develop three state-of-the-art teleconferencing rooms in Islamabad, Lahore and Karachi. The infrastructure will enable participants to hold online meetings with the SECP site offices, having the same look and feel as if they are physically near one another. This system will seamlessly integrate with the existing Unified Communication System, and communication channels will be established using the existing infrastructure. A multi-conferencing unit (MCU) will be purchased to establish multiparty conferencing across teleconferencing terminals and normal desk phones. In continuation to the Unified Communication Phase-1, the IP phones will be installed and configured at each user's desks, as soon as they are received.

4. Enhancement of storage and virtualization infrastructure at Karachi CRO

Keeping in view the enhancement of virtualization infrastructure at the head office, and recognizing the needs of the Karachi CRO, the second largest office of the SECP, a proper data center was established last year to host servers and network switches.

In continuation to that enhancement of storage infrastructure and virtualization hardware was also foreseen. For the same purpose, two high-end servers will be deployed and configured at Karachi CRO, to provide redundancy and increased computing power. Further a storage system would be deployed at the SRO to increase storage capacity and performance and to bring IT infrastructure at par with the Head Office data center. A new UPS system is also planned to be installed to support and protect the IT infrastructure in case of power outages.

5. Deployment of Network Protection Server (NPS)

The network security is of utmost importance to any organization and is becoming a challenge as mobility is increasing in organizations worldwide, with a variety of users connecting over the Internet, and mobile workforce, which requires secure access to services are on the go. The infrastructure team at the IS&T Department foresaw the need to strengthen the network security by means of introducing the Certificate-Based Encryption (CBE) technologies for all forms of access to the network



and critical data. The requirement to take measures against machines that are infected due to prolonged periods of network isolation and lack necessary updates to provide them with means to connect to an isolated network to download necessary updates to come in a healthy state, so that the workstation is able to gain the certificate necessary for communication with a secure network.

The CBE is the highest form of security possible to secure the internal network from possible hackers and attackers from the Internet and the internal network. Only authenticated users will be allowed access to services. This state-of-the-art technology is in the planning and testing phase after which it will be deployed in production to restrict access to only authenticated users and healthy machines after passing a defined and documented criteria. For this project initial groundwork has been completed, the design has been finalized, and implementation will start soon.

6. Direct Access

Keeping in view of the dire need for a mobile workforce, that is able to work from a distance and having the same capability and access level to resources over the Internet as if they were in office, the infrastructure team at the Department has planned deployment of the direct access technology by Microsoft. With its implementation along with Network Access Protection (NAP), users will be able to connect to their workplace Intranet and access network resources such as email, network shares, intranet portals, and services and they will be able to communicate with people more effectively. Direct Access will ensure that the mobile workforce, and people who desire to work from home, can work seamlessly. It will enable people to work more effectively, allowing them to have a working experience as if they are at their desks. For this project, groundwork has been completed, and it will be implemented along with the NAP project in the near future.

7. Online archive for corporate messaging system

Offline archives are a major problem currently faced by email users, because Microsoft Outlook archives important emails on a constant basis with the users consent. This automatic archiving and the limited available storage space for users, has forced users to keep local copies of corporate email, attached to their outlook. Thus a need was realized to introduce a new system for the online archives. The R&D for this system has been completed successfully and the implementation phase will start soon. One of the advantages of having an online archive system is that the data will be stored on the server, with scheduled backups, chances of data-loss in case of disk failure will be minimized. Another benefit is that the online archive will always be available to the corporate user on webmail, and continued data access from anywhere is possible.

8. Network segregation for server side protection

The network security is a major concern for companies around the world, and is a major threat when network segregation level is at par with the latest security trends. For this purpose, a study was conducted to assess the current network, and recommendations were made with available alternatives properly weighed. A comprehensive plan was chalked out to strengthen the network by further segregating access to specific network resources, from the rest. For this firewall configuration will be strengthened to reduce the risk of any attack on server farm to strengthen security. This project is in the design phase and will increase network security for precious business data, resources and services.

9. Automated third party application upgrades

The Windows updates are deployed on all machines on the SECP's domain with central management to reduce the Internet bandwidth required to download updates individually on every machine. Windows Update servers only cater for Microsoft Windows specific updates and does not include third party updates. This genuine need of users was recognized, as users no longer have the rights for software installations on domain computers. For this a plan has been put in place to identify commonly used applications at client side, and automate their upgrades centrally so that the user should be at ease and does not need to worry about applications not being updated regularly. The reliance on IT support personnel will also be reduced significantly after implementation of this project.



10. Deployment of data leakage prevention system

The data leakage is a major problem in the corporate world. The USB storage and other network privileges are completely banned to avoid any data leakage from the secure environment. Carrying the same concern forward to create a balance between being able to do what is required, and not being able to move corporate data outside the organization has become a need. With increased mobility of resource, data protection has become a concern, and to address the issue, feasibility and deployment of data leakage prevention (DLP) system have been planned for the coming years.

11. Network infrastructure upgrade at CROs

The revamp of network infrastructure at the Lahore and Islamabad CROs has been planned in the near future. A plan has been prepared after-site survey for revamping network cabling infrastructure at the CROs to provide reliable means of communication and seamless network connectivity to users at corporate branch offices. This will include deployment of new network switches, cabling infrastructure enhancement, installation of WiFi and network cabinets at the CROs.

12. Replacement and upgrade of UPS systems

The UPS systems are currently deployed on all floors at the head office, and at all corporate branch offices located in all major cities. These systems ensure availability of resources during power outages, prevent loss of precious data due to abrupt shutdowns, and protect electronic equipment from damage. Some of these systems have outlived their useful life, and need to be replaced. The replacement of old UPS systems is planned for the coming years for continued protection of IT assets, and enhanced user satisfaction with the IT services.

13. Comprehensive backup solution for Karachi CRO

A comprehensive backup solution has already been deployed at the SECP's head office. Keeping in view the number of users and services at the Karachi CRO, the department has planned to deploy all-inclusive backup solutions in at the Karachi CRO. The proposed solution will cover backup of exchange mailboxes, virtual machine backup, user personal drive backup etc. The department has planned to deploy a tape library for the said purpose with relatively large storage capacity at the Karachi CRO.

14. Active Directory restructuring – Phase 2

The directory structure is vital in in any domain because it is the core of all services: authentication, rights assignments, user groups, network drive mapping, messaging infrastructure and distributed file system (DFS) directly depend on the directory structure features and performance. With each new release of Windows Server there are various bug fixes, updates, improvements in the design, AD replication, authentication mechanisms and improvements in user satisfaction with the system. These upgrades are extremely important for performance and smooth operation of the Windows domain infrastructure.

After Active Directory (AD) restructuring phase 1, further enhancements need to be done at various levels to ensure high performance of the Active Directory Infrastructure and to further improve the directory structure to meet the increasing needs of the user. For this purpose, and forest functional level has to be raised to Server 2008 R2. To improve performance, all domain controllers in the SECP server farm need to be upgraded to the latest operating system, Windows Server 2012, an activity has been planned to replace the existing directory servers and migrate existing users to the new directory infrastructure. This will result in significantly improved login performance, and user/computer policies application turnaround time. Furthermore, the directory structure will be reviewed for stale records, and cleanup procedures will be followed to remove useless data from the AD database.



Support Services Division



Support Services Division

Abid Hussain (Director/HOD) with Khalid Iqbal, Dr. Rubina Tahir, Kashfa Mahmood, Uzma Tabassum, Syed Zargham Haider, Syed Ali Hassan Naqvi, Syed Ali Adnan, Usman Khalid and Arshad Kamal.

Support Services Division

The division consists of the Human Resources and Training Department and the Administration Department.

Human Resources and Training Department

These are the main achievements of the Human Resources and Training Department:

1. Managing training calendar in line with findings of the TNA

Over 90% of the SECP's staff was engaged in the exercise for a 360 degree scientific training needs assessment (TNA). The department facilitated 41 foreign events and 91 local trainings, amounting to over 1,000 hours of training delivery. Collectively, this amounted to over 1,300 training exposures addressing over 80% of the SECP's training needs in the past one year. The events organized and facilitated included seminars, study tours, workshops and training sessions.

2. Study tours

- a. The employees from the C&CD, CROs, LL&GCD and IT Department were sent to study tours in the following jurisdictions:
 - Hong Kong (Companies Registry)
 - United Kingdom (Financial Services Institution, Charity Commission, London Stock Exchange and Companies House)
 - Singapore (Accounting and Corporate Regulatory Authority)
 - Malaysia (Companies Commission of Malaysia)
- b. The employees from the SCD, SMD, Finance and LL&GCD were sent to Turkey, Australia, Malaysia and the UK on study tours.

3. The department facilitated the employees from various departments to attend the following seminars, conferences and meetings:



- a. The IOSCO events including:
 - i. IOSCO Executive Committee, Technical Committee and Emerging Markets Committee and International Conference on Asian Markets Integration and Financial Innovation–Japan
 - ii. Fifth SROCC training seminar–Istanbul
 - iii. EMC annual conference–Chile
 - iv. APRC meeting and seminar–Thailand
 - v. Third 2012 IOSCO Committee 3 meeting–India
 - vi. Assessment committee meeting–New Zealand
 - b. The SECP employees were also nominated for participation in the following Ministry of Foreign Affairs funded events in China:
 - i. Financial Market Construction and Economic Development
 - ii. Foreign Investment Utilization and Industry Safety for Developing Countries
 - iii. Development and Management of Service Outsourcing for Developing Countries
 - iv. Laws and Regulation of International Trade System for Developing Countries
- 4.** The following in-house and outsourced trainings were organized and conducted for the SECP's employees:
- a. The following skills were imparted through in-house training sessions:
 - i. Train the trainer
 - ii. Communication skills
 - iii. Staff etiquette and decorum
 - iv. SECP functional manuals
 - b. The following skills were imparted through outsourced training sessions:
 - i. Public speaking
 - ii. Time and stress management
 - iii. Speed reading and writing
 - iv. Secretarial skills
 - v. International Cooperation in Pakistan–UNODC
 - vi. Second train the trainer on enhancing the knowledge capacity and effectiveness of our officials dealing with issues such as terrorism, counter-terrorism and financing of terrorism and other related aspects–UNODC
 - vii. Training on corporate laws–Sindh Judicial Academy
 - viii. Capacity building in public procurement–PEPRA
 - ix. International Forensic Sciences and Cyber Security Technologies Conference and Exhibition–Forensic People Pakistan
 - x. Seminar on Corporate Reporting: New Challenges–ICAP
 - xi. SAFA summit and 12th Management Accountants International Conference – ICMAP
 - xii. Awareness session on Resolving Corporate Governance Disputes–PICG
 - xiii. Commodities Markets Training by PMEX
 - xiv. KCDR training on mediation and conflict resolution
 - xv. JCR-VIS corporate credit risk analysis
 - xvi. IFRS and IAS standards
- 5.** The department has developed and maintained a user-friendly computerized database comprising of 102 local and 66 foreign training and development institutions /consultants providing management, leadership, soft skills and wide range of technical trainings relevant to the current and future mandate of the SECP.
- 6.** A comprehensive dress code policy was developed and implemented by the department. It is based on the best market practices and internal culture of the SECP ensuring:
- i. A formal image from Monday to Thursday
 - ii. A smart casual image on Friday and through quality assurance audits conducted by dress code inspection teams



7. In order to ensure knowledge sharing within the organization, the department is self-reliant in recording the related events. Consequently, it arranged and recorded 16 knowledge sharing sessions attended by over 40 employees. These have been uploaded on the SECP's intranet for everyone's access and enhanced self-learning and development for the benefit of all the SECP's employees.
8. With the aim of creating awareness about the SECP and attracting a polished pool of potential employees, the department conducted many awareness sessions targeting the topnotch educational and professional institutions of Pakistan.
 - a. An awareness seminar was conducted at the NIC auditorium. More than 300 students from more than 18 educational institutions and accredited qualifications granting bodies such as the ICAP attended it.
 - b. On campus awareness sessions were conducted at:
 - Quaid-i-Azam University, Islamabad
 - National Defense University, Islamabad
 - FAST University, Islamabad
 - FAST University, Peshawar
 - Bahria University, Islamabad
 - Fatima Jinnah Women's University, Rawalpindi
 - Lahore University of Management Sciences, Lahore
 - Lahore School of Economics, Lahore
 - The Institute of Legal Studies, Lahore
 - Institute of Business Administration, Karachi
 - LeCOLE, Karachi
 - c. The department also represented the SECP at 3 leading job fairs/networking events at the following topnotch universities of the country: IBA, Karachi, LUMS, Lahore and Bahria University, Islamabad
9. In order to promote the role of the SECP as an endorser of corporatization besides a regulator, it was represented in the capacity of an official sponsor, mentor and judge at Pakistan's leading entrepreneurship challenge event conducted by the IBA called 'IBA Invent—the Entrepreneurial Challenge 2013'. It is the biggest business plan competition held in Pakistan under the umbrella of the Entrepreneurship Society of IBA, Karachi. It is a nationwide event where students aspiring to become entrepreneurs participated from over a 100 HEC-recognized institutions of higher learning. The main objectives of it is to bring out and give a head start to the next generation of entrepreneurs, to promote inter-universities/institutes collaboration, bridge the industry, academia gap and in general to promote entrepreneurship and innovation.
10. In order to ensure the availability of a trained pool of internal trainers with the ability to effectively transfer their specialized knowledge, the department has designed, developed and conducted a train the trainer workshop for 20 internal resources of the SECP.
11. Three orientation sessions for new employees were conducted to familiarize them with the SECP. The participants, in particular, were introduced to the SECP's vision, mission, strategy, tactics, goals and objectives in addition to the organizational leadership and structure. The participants included 25 newly hired employees who are serving in enforcement, internal audit, administration, specialized companies and insurance.
12. As identified through the TNA conducted in 2012, many employees benefited from training sessions conducted by an eminent English-language expert hired by the department.
13. The department has facilitated, designed, managed and moderated a number of employee engagement events for which the team received both oral and written acknowledgements for being an effective change agent and spearheading a culture of employee engagement. The engagement events conducted this year include town halls, board games tournament, interactive session on fitness, diet and nutrition, celebration of women's day and annual dinner in Lahore.



14. The bell curve performance management system successfully replaced with the points distribution method (PDM) duly approved by the Commission and the Securities and Exchange Policy Board. The earlier system of forced ranking had led to discontent among many employees.
15. In order to enhance employee motivation, the Commission approved a new promotion policy and a procedure. Consequently, 36 management cadre employees, 22 officers and support staff cadre employees were promoted.
16. The SECP Employees' Welfare Trust was formally registered to facilitate its employees. The trust will provide financial support to employees' and their family members, which include parents, spouse and children, in addition to areas covered in the SECP's HR Handbook and Service Manual. The SECP contributed one million rupees to the fund. Two employees have already benefited from the financial assistance from it: one for a funeral grant of Rs20,000 and the other for an educational loan of Rs26,400. Additionally, two applications for marriage grants are being processed.
17. In continuation of the SECP's commitment to the employees' wellbeing and betterment, the policy board on the recommendation of the Commission, approved the Voluntary Pension Scheme for the management cadre employees working on new terms and conditions (HR Handbook) and officers and support staff (clerical/non-clerical) employees working on old terms and conditions (Service Manual). The Mutual Fund Association of Pakistan, in the presence of fund managers' representatives who had set up stalls and kiosks at the SECP head office in Islamabad, made a presentation about the salient features of the VPS offered to the SECP's employees. Besides, the SECP arranged for VPS providers to set up their stall at different offices of the SECP for facilitation of its employees across the country.
18. On the recommendation of the Commission, the policy board approved the provision of a five-day paternity leave for male parent employees at the time of their child/children's birth.
19. The department instituted a winter internship program, which started on January 1, 2013. It provided students of various universities with an opportunity to gain a firsthand experience and to discover how they may contribute to the financial markets of the country.
20. In order to benefit from the scholarships offered by the CFA Institute to the SECP, the department facilitated 5 employees in getting them enrolled with the institute.
21. The policy board on the recommendation of the Commission, approved amendments to the HR Handbook, adding a new chapter dealing with matters relating to efficiency and discipline along with consequential amendments to other chapters. For the purpose of uniformity, the board also approved adding a similar chapter to the Service Manual by substituting the existing chapter therein, along with consequential amendments to other chapters.
22. In order to streamline HR processes and club the existing Human Resources Handbook and Service Manual, the services of HR consultants were hired. The consultant upon revision of the manual has submitted a draft version which is being thoroughly reviewed by the HR team.
23. In line with the SECP's policy of providing an opportunity to its employees to perform Hajj, this year 3 support staff cadre employees were selected through ballot to perform Hajj.
24. The department facilitated with the appointment of advisers and consultants for the establishment of the Sharia Advisory Board.
25. In order to ensure that the SECP's employees be compensated in line with market trends an independent salary survey for the year 2012-2013 is being conducted through an HR consulting firm.
26. The department remained in close liaison with the Information Systems and Technologies Department (IS&TD) regarding implementation of Oracle-based ERP. The necessary modalities with the IS&TD were finalized and accordingly the ERP is to go live in July 2013.



Administration Department

After the SECP's reorganization in May 2013, the Administration Department became part of the Support Services Division. It provides dedicated administrative support in travel and transport management, building maintenance, medical facility management, event management, procurement and other miscellaneous support services. The department is committed to maintaining transparency in all its procedures.

These are some of the main achievements of the department:

- **Facilitation of SECP's employees:** The department facilitated the SECP's employees by creating a corporate sector working environment. It got the washrooms, kitchenettes completely renovated. The play area, eating place and sleep area at state-of-the-art daycare center (crèche) at head office was expanded.
- **Karachi CRO:** Renovation of SLIC Building has been planned. Further, the process to buy a plot of land for the Karachi CRO has also been initiated.
- **Construction of CRO in Islamabad:** In order to expedite the construction of the CRO in the G-8 sector of Islamabad, the department initiated the paperwork for the selection of architect and contractor.
- **Expansion of the SECP's head office:** Due to limited seating space at the head office, the SECP has acquired two more floors of the NIC Building. The paperwork was initiated to hire an architect and contractor.
- **Visitors' management system:** The department has upgraded the visitors' management system, which includes visitors' alerts and visitors' auto profiling.
- **Support Services Management System:** The department has worked on introducing an automated facilities and services management system to manage employees' requests and this system is to be implemented in next financial year.
- **Archiving project:** The automation system for the archiving project was implemented. Now the SECP's records are more easily accessible.
- **Travel and transport:** During 2012, a panel of travel agents was appointed and a travel desk was established. The travel desk is responsible for efficiently handling airline and hotel reservations, processing bills received from hotels and travel agents. The department also manages the SECP's transport fleet, procuring vehicles, as and when required. Entitled officers are handed over their cars without any delay in procurement and registration of vehicles. Bi-annual inspection of vehicles has also been introduced.
- **General office management and security:** The department takes care of the daycare center, the medical unit, the gym, the training room and the reception desk. Trainings and workshops are conducted on a regular basis in the newly established, fully equipped training room, which provides a very comfortable environment to its users.
- **General procurement, assets and property management:** The department has introduced Oracle ERP for procurements and stockable items. The department has the procurement processes more efficient, resulting in better quality standards as well as reduced turnaround time. Various vendors have been pre-qualified in different categories for procurement of goods and services, hence procurement requests are processed more efficiently now. The registration of fixed assets and asset tagging has also become more efficient.
- **Receipts and issuance:** The department handles the SECP's incoming and outgoing mail. The record is maintained using software with system-based record keeping.
- **Medical and physical health:** The department has a qualified doctor at its service, who proactively looks after the health-related issues of the SECP employees. It maintains the employees' medical records and also takes care of medical tests and checkups of all employees on an annual basis.
- **Event management:** The department organized many successful events, such as registrars' conference, judicial symposiums, and cricket tournament.